ABUSES, FAVORITISM, AND MISMANAGEMENT IN HUD PROGRAMS
(Part 2)

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HEARINGS
BEFORE THE
EMPLOYMENT AND HOUSING SUBCOMMITTEE
OF THE
COMMITTEE ON
GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES
ONE HUNDRED FIRST CONGRESS
FIRST SESSION

JUNE 20, 22, 29, 30; and JULY 11, 1989

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ABUSES, FAVORITISM, AND MISMANAGEMENT IN HUD PROGRAMS

(Part 2)

TUESDAY, JUNE 20, 1989

HOUSE OF REPRESENTATIVES,
EMPLOYMENT AND HOUSING SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 2247, Rayburn House Office Building, Hon. Tom Lantos (chairman of the subcommittee) presiding.

Present: Representatives Tom Lantos, Barney Frank, Matthew G. Martinez, Ted Weiss, Robert E. Wise, Jr., Donald E. "Buz" Lukens, Jon L. Kyl, and Christopher Shays.

Also present: Representatives Marge Roukema, Bruce F. Vento, and Charles E. Schumer.

Staff present: Stuart E. Weisberg, staff director and counsel; Celia Boddington, professional staff member; June Livingston, clerk; Jeff Albrecht, minority professional staff, Committee on Government Operations, and Jonathan Atwood, legislative assistant to Congressman Shays.

OPENING STATEMENT OF CHAIRMAN LANTOS

Mr. LANTOS. This morning as the subcommittee resumes its hearings on the scandal at HUD, we will once again focus our attention on influence peddling, abuse, and favoritism in HUD's administration of the Section 8 rent subsidy program to rehabilitate housing for low income families.

Last month the developer who hired James Watt as a consultant told the subcommittee that her housing project in Essex, MD, had the strong support of the local, county, and State officials, including the Governor of Maryland. Yet, even with the strong support, it was necessary for the developer to pay Mr. Watt $300,000 to pull political strings to obtain the scarce rent subsidy funds from HUD, which were in very great demand.

It is obvious that the applications for moderate rehabilitation funds far exceed available funds. Yet, today we will see how a housing project in Seabrook, NJ, which did not enjoy strong local support, nevertheless came to be funded with the assistance of a politically well-connected consulting firm.

In November 1986, the Department of Community Affairs in New Jersey, a public housing authority [PHA], filed an application
for 326 units of Section 8 Moderate Rehabilitation Program funding. It is remarkable that the PHA asks for 326 units, not 300 units, or 350 units. While the application was filed with the HUD regional office in New York City, a blind copy of the application was sent to HUD headquarters in Washington to the attention of Ms. Deborah Dean.

There was nothing to distinguish this particular application from the hundreds of others seeking Section 8 funding. It appears that the politically well-connected Washington consulting firm of Black, Manafort, Stone & Kelly, received $326,000 in fees for pushing this project. This comes to exactly $1,000 per unit, which James Watt, in previous testimony before this committee, described as the going rate.

In February 1987, about the same time the funding application was approved internally at HUD, a company owned in part by Mr. Paul Manafort signed an option to purchase Seabrook Apartments, a 326 unit project in Upper Deerfield, NJ.

On April 24, 1987, the HUD regional office notified the public housing authority that it had been awarded 326 units.

On May 18, the public housing authority published a single advertisement of funds availability in the daily newspaper, giving developers two weeks to apply.

On June 1, to no one's surprise, the public housing authority awarded these 326 units to Mr. Manafort's development project. This selection process had all the competitiveness and suspense of professional wrestling.

The moderate rehabilitation program funds became the trough from which former HUD officials and the politically well-connected fed. As the hearing this week will show, those with the right connections could obtain these rent subsidy funds with a letter or a phone call to the right person at the Department of Housing and Urban Development. For some individuals, obtaining the scarce rent subsidy funds was as easy as phoning in an order to Domino's for pizza.

It is a shameful spectacle to see former HUD officials and the politically well-connected cashing in on a program set up to benefit low-income families.

Before I turn to my colleagues for whatever opening remarks they would like to make, the Chairman would like to make a few observations: First, to set the record straight about the involvement of certain individuals in this problem, and secondly, to indicate where we are going from here.

As I have stated on I believe all previous occasions, the Chairman is deeply impressed by the vigor and determination with which the Secretary of Housing and Urban Development, Jack Kemp, is moving to clean up the swamp he found at HUD. I have nothing but praise for Secretary Kemp for his dedicated effort to set right so many things that have been wrong with HUD for years.

Secondly, I want to apologize to the vast number of people from all over the country who have inundated us with an avalanche of mail. We are deeply grateful for their comments and for their encouragement. We will respond to every letter, but it will take some time.
Thirdly, I want to commend the Attorney General for ordering every U.S. Attorney throughout the country to begin an investigation of every single HUD field office. This investigation is overdue. I am delighted the Attorney General has decided to undertake it.

Now, we have had many kinds of actions that we have focused on thus far, and I think it is very important to differentiate among the various types of activities we have seen unfold in these hearings.

Some of the actions were merely hypocritical, others unethical, others repellant, yet others criminal. And I think it is extremely important not to assume that all of the actions that we have uncovered and others have uncovered, are criminal actions. Some unquestionably are, but I think it is important, in fairness to all of the individuals appearing before this subcommittee, for the chairman to underscore that while some of the actions may be highly hypocritical, highly unethical, highly repellant, they are, nevertheless, not criminal in nature.

It will be up to the U.S. Department of Justice to make a determination which of the actions that we are dealing with are in fact criminal in nature. We have seen influence peddling, embezzlement, fraud, waste, overcharging, theft, conspiracy, incompetence, nonfeasance and malfeasance. We have seen a geographic scope running from Puerto Rico to dozens of states in the United States.

I think it is important, as we continue these hearings, to hold up on making judgments with respect to the culpability of individuals. The American tradition of fair play demands this of all of us.

Now, I would like to call on the ranking Republican on the subcommittee, Congressman Lukens of Ohio, to make whatever opening statement he wishes.

Mr. Lukens. Thank you, Mr. Chairman. I will be brief and to the point.

I would like to commend the chairman. I think without the chairman's intrepid, consistent pushing in this matter, we would not have had these hearings. I am glad to see so much information come to the surface, of which I think many of us were not aware.

There seem to be three basic categories of highly suspicious activities. One is in the area of rent subsidies. In an effort to try to provide a program to provide subsidized housing for many people, it developed into nothing more than a treasure trove from which millions of dollars have been squeezed.

Secondly, the hearings last week showed it was possible to steal millions of dollars from the proceeds of sales of HUD foreclosed homes.

Thirdly, we are dealing with primarily in today's hearings, with what we opened up on, the Moderate Housing Rehabilitation Program. We would hope the Section 8 program would have done some good. It is one thing to terminate a program if it is not effective, but it is another to milk the program, as some people attempted to do. We hope this hearing will be fair and I might say, we will try to ask objective questions on both sides. Some questions will be pretty brutal but others will be asked in order for witnesses to be able to give their point of view.
I am happy to see the hearings come this far. I want to congratulate the chairman on the thorough manner in which he conducts the hearings.

Mr. Frank. I want to congratulate again, yourself, the members and staff on all sides. It is not pleasant for any of us to have to deal with this sort of information and I think that with your leadership, you are doing a very good job, the staff is doing an excellent job in helping us prepare for this, and I want to say I think the members are behaving in a cooperative and bipartisan fashion, and I just look forward to today's information. As I said, it is not pleasant, but I think we do an important job in getting it out.

I share your sentiments on Secretary Kemp. From every evidence we have, he is behaving entirely appropriately with his response to this information, and I hope we can cooperate with Secretary Kemp in getting the programs back on track in an efficient way.

Mr. Lantos. Thank you very much.

Congressman Weiss.

Mr. Weiss. I, too, want to commend you for the really diligent and outstanding manner in which you scheduled these hearings, and the investigations being conducted. I only have a couple of words to add. When the Reagan administration came in, after some months, it became quite clear that their ideological antipathy toward Government and Government involvement in the affairs of the Nation led them to take a number of paths to try to undo the efforts of the past 40 years in building various programs. They tried the path of having Congress repeal some of the legislation. They tried to cut appropriations for the programs. When that didn't work sufficiently, they put into place a Trojan horse of administrators, people who in essence opposed the programs and were put in to undo them.

HUD demonstrated all of those. But they added some additional steps in HUD. In addition to all those three basic steps, when that was not enough, they apparently put in people to milk the programs, and then when that wasn't enough, in fiscal year 1990, they put in people to steal from the programs, and it really is a terrible indictment of the Reagan administration's approach to Government, and I think you are performing a great public service in exposing it.

Mr. Lukens. I have to interject this point. I am sure Mr. Weiss didn't mean to imply the Reagan administration purposely put people in place in HUD in order to steal. I think the net result was that the people came in and some of the people apparently have stolen, although we haven't proven that in a court of law. HUD underwent a philosophical change in pace and with an intentional purpose to change programs. I think the implication that they were employed purposely with a mission to steal is just inaccurate.

Mr. Weiss. Certainly, as far as the milking, there is no question. As far as the stealing is concerned, there is no question that, in fact, stealing has taken place to a vast extent. The extent to which there is culpability on the part of the direct Reagan appointees—the minor ones—I think we have demonstrated. As far as the major ones, that is still to be determined.
Mr. Lukens. That is different from purposeful intent. I appreciate the gentleman clarifying his remarks.

Mr. Lantos. Congressman Shays.

Mr. Shays. One of the successes of this committee is that it hasn’t been conducted on a partisan basis and my greatest admiration for you Mr. Chairman, is that you get at the truth without making a political charade out of this.

I take exception to any comments by anyone who suggests the previous administration sought to put in people who would milk the program or to steal from it. There is just no evidence at all from any source that that was the case. It is essential that we proceed on a bipartisan basis, and I just can’t emphasize enough that if we start to see this committee getting into partisan wrangling, all the good done to date will be wasted.

I think a lot of good has been done to date, and I think the ultimate outcome of these hearings will be a total cleansing of this Department from top to bottom, and I believe that there will also be a number of new programs initiated by Congress on a bipartisan basis that will do a much better job of meeting the needs of those in need of housing.

Obviously, as we all have participated in this hearings, we have had people contact us, not giving us their names and wanting to talk to us, both from inside and outside of HUD. Some of that information has been very helpful. But we have also had the press that wants various documents we may be in possession of, and I am just letting you know I am referring all requests by the press for any documentation to the committee, to you and to your staff, to decide what really is public information.

Mr. Lantos. I want to thank my friend from Connecticut for his observation. I could not agree with him more. We have attempted, and I believe we have succeeded, in conducting these hearings in a meticulously fair and bipartisan fashion. It is the intention of the Chair to continue to do so so long as these hearings go on.

It has been the Chair’s longstanding view that neither virtue nor vice is a monopoly of either political party, and not all angels are on one side.

Mr. Frank. I appreciate the nonpartisan tone, but Deborah Dean is not a terrestrial servant and didn’t parachute into HUD on a space shuttle. She was put there by the Reagan administration. Now I agree with you there is, unfortunately, corruption on all sides, but neither should we give rise to the view that somehow this grew up somewhere as a natural weed. Deborah Dean was put there. As a matter of fact, the President tried to make her a Presidential appointee, and the Senate wisely declined to confirm her.

Secretary Pierce was a Reagan appointee, although the President appeared from time to time to forget that understandably.

Mr. Lantos. Congressman Martinez.

Mr. Martinez. Thank you, Mr. Chairman. First of all, I don’t want to be redundant in commending you, but I think you should be commended for the national attention you have brought to this problem by holding these hearings. I believe the problems that exist at HUD should be brought to the fullest light of the public and that the public should have some response to it and get some action back from that response.
I think the response would be indignation. It certainly is mine. There are times when cooler heads must prevail and I get angry about the situation, very angry, especially when I see so many projects that have gone without funding because money was being siphoned off in various ways. The problem being even in this situation, as bad as it was—some good projects, worthwhile projects, got in trouble, and we are going to hear testimony about that.

But I don’t think there is any more of an abridgement of faith of the people than when you—I don’t know, I won’t say purposefully created a situation, as we know now, I don’t know what is worse. If you do it purposefully at least there is some intelligence of thought there, but when you do it just because you don’t care enough to diligently watch the actions of your appointees or the actions of an agency of the Government then that is something else. I believe that is one of the responsibilities that you take on in that particular situation. I think it is more indicative of what occurred through a particular administration, not necessarily for that individual, because that individual was there but because it wasn’t watched. No administration that I have seen in the past is completely clean of having problems within its administration.

But we don’t need to talk about it. I think Mr. Shays is right. In other hearings Mr. Shays has shown as much anger and disgust as anyone has over this situation developing. So I agree with Mr. Shays that this should be a bipartisan effort to get this thing under control and to correct those situations that have gone so awry in the past.

I am, like you, very hopeful that our former colleague, Mr. Kemp, is going to do a good job. His erstwhile desire to do a good job is evident, I think. But I think we need to get on with these hearings and we have to start considering legislation that might cease any attempt at any kind of action like this in the future.

Mr. LANTOS. Thank you very much.

Congressman Wise.

Mr. Wise. Mr. Chairman, I want to thank you for these hearings because two years ago I started to work with HUD in my area to try to get more moderate rehabilitated housing, and to try to get more housing units and vouchers. I could never figure out why it was that we weren’t able to. We played it by all the rules, by the formula. We had one of the best lease-up rates in the country, and certainly within our region, and yet something always prevented us. The vouchers always went somewhere else. We didn’t get moderate rehabilitation units for a couple of years, and now I understand why.

And so I want to thank you, because what you taught us—what we are learning from these hearings—is that playing by the rules is the last thing we should have been doing. I hope that what we can do is get this very important agency back to the rules. Your chairmanship, the leadership of this committee in these hearings, is causing that to happen.

For Secretary Kemp, I have a lot more assurance that he can play by the rules, and so it is a new day for HUD. But, at least you have cleared up a lot in my mind as to why my area in West Virginia, and many other areas which qualified, worked hard, prepared the applications, did what they were supposed to do, and met
all the necessary guidelines, still couldn’t qualify. I think I am beginning to understand.

Thank you very much.

Mr. LANTOS. Thank you very much.

One particular bit of help the subcommittee has had during these hearings has been the willingness of some of our colleagues from other committees to come and join us. I am delighted to call on my good friend and neighbor, Congresswoman Roukema, the ranking member of the Housing Subcommittee.

Mrs. ROUKEMA. Thank you, Mr. Chairman.

I certainly appreciate your courtesy, and the courtesy of the committee, for permitting me to sit in on these hearings. I do want to commend you for the work that you have done.

As the ranking member of the Housing Subcommittee, I should like to state that we have and will continue to run a parallel series of hearings. We have heard from the Inspector General, Mr. Adams, as well as Mr. Demery, and have an open invitation to Mr. Kemp, and the Secretary, at the appropriate time, will be appearing before our committee. I certainly stand with you in commending him for his aggressive, prompt and intelligent action with respect not only to the Moderate Rehabilitation Program but the other questionable practices among the agents in the regional offices.

I would like to state clearly, and put myself in the same position as the chairman in stating that we will leave the judgment of criminal culpability up to the Justice Department. I think, however, it is apparent to all of us that at the very least, we have here malfeasance in office or nonfeasance. At the very worst, we have conspiracy to defraud or other possible criminal indictments.

In any case, we have clearly a question of law here that it is the jurisdiction of the Housing Subcommittee to address, because it certainly has become apparent to me that if laws have not been broken, then we had better change the laws to see to it that we have corrected the problems so that these kinds of loopholes, whether of criminal or civil liability, do not continue.

And certainly that is my intention in being here today, to examine completely and fully what kinds of actions will be necessary for our committee, as a committee of jurisdiction, to take in the future.

I also wanted to be here to thank you for inviting Mayor Peterson of my home State and county of Cumberland. We have not met, but it is a pleasure to have you here, and he is one of our fine, distinguished public servants from the State of New Jersey. Thank you, Mr. Chairman.

Mr. LANTOS. We look forward to meeting him. The Chair is delighted to hear from our colleague from Minnesota, Mr. Vento.

Mr. VENTO. Thank you very much. I will be leaving momentarily to chair hearings myself on another matter, but I similarly serve on the Housing Subcommittee of Banking, and we commend you and your committee for the thorough investigative work that you are doing with regard to these programs.

I think that the underlying predicate of the billions of dollars of authority and budget obligations that goes forward, is that there is an objective and professional manner in terms of evaluating the grants. In fact, in most instances, there is law and/or regulation in
place that deals with that. In most of these instances because of the work of your committee, it has become clear this has not been followed, and therefore, flowing from that, the enforcement process has to begin.

Specifically, on the front page of a leading paper, there is an indication of an evaluation of a Roseville, MN project, which happens to be in my district. So, while I have been admiring you from afar, Mr. Chairman, today I participate because this touches my area. But I think each of us as we write letters, as we advocate for projects in our districts, as Representative Wise has indicated, we assume there is an objective and professional evaluation system in place.

We found that lacking in some UDAG programs in our own subcommittee and specifically with regard to my district, I got a grant reversed. The Justice Department rendered a decision and you might want to look at that program as well, Mr. Chairman.

Mr. LANTOS. We have every intention of doing so.

Mr. VENTO. I commend you. I think this is the type of accountability that is necessary, if you will, and I regret the results, but nevertheless, I think if we are going to have sound housing and urban development programs, they have to be based on a professionalism that apparently has been sadly lacking in the instances which you are reviewing, Mr. Chairman.

We, on the subcommittee and others I am certain, look forward to working with you in concert to correct, to fully explore and evaluate this problem.

Thank you.

Mr. LANTOS. Thank you very much.

The Chair again would like to express its appreciation to the outstanding staff work done by both the majority and minority staff members of this subcommittee.

I also want to express my appreciation to Chairman Gonzalez of the Banking and Housing Committee and Chairman Riegel on the Senate side, for their outstanding cooperation with us.

The first panel of witnesses this morning are Mr. Bruce Peterson, mayor of Upper Deerfield Township, NJ. If you will come forward, Mr. Peterson, and I believe you will be accompanied by Mr. Edward Fleetwood, housing officer, Upper Deerfield Township, NJ.

[Witnesses sworn.]

Mr. LANTOS. Please be seated. Mayor Peterson, we are very pleased to have you. Your written statement will be included in the record in its entirety. You may proceed in your own way.

STATEMENT OF BRUCE T. PETERSON, MAYOR, TOWNSHIP OF UPPER DEERFIELD, CUMBERLAND COUNTY, NJ, ACCOMPANIED BY EDWARD FLEETWOOD, HOUSING OFFICER

Mr. PETERSON. I would like to thank the gentleman for having us here today. I am going to summarize slightly on our prepared statement that we submitted. Upper Deerfield Township is approximately a 32-square-mile municipality located in the northwest corner of Cumberland County, NJ. The township is 50 miles west of Atlantic City. It is still largely a rural area where agriculture is a
primary industry. Crops include vegetables, grains, and nursery stock.

Large portions of the community are now residential suburbs. The municipality is governed by a five-membership committee of which I am the chairman, thus the honorary title of mayor. At present, the population is estimated at 7,000 people. The largest employers in the area are two food processing firms located in and around the locality of Seabrook. Seabrook is named for Charles F. Seabrook, founder of Seabrook Farms Frozen Foods and a contemporary of Clarence Birdseye in the establishment of the frozen food business in the 1930's and 1940's.

Seabrook, due to a central location within the township, is a site of its schools, municipal hall, and the former Seabrook Village, the reason for my appearance here today.

Because Seabrook Farms as a food processor was considered to be essential to the war effort and housing was necessary to provide shelter for its workers, the Federal Public Housing Authority in 1944 leased 45 acres of land from Seabrook and on it constructed 35 buildings containing a total of 200 apartments and 11 dormitory buildings in which there were 85 apartments and 124 sleeping rooms. Later the center portion of each dormitory was demolished and the sleeping rooms were converted into additional apartments.

In the spring of 1946, since World War II had ended the previous year, the Federal Public Housing Authority wished to withdraw from the operation of the project and arranged to turn its holdings over to Seabrook Farms on a leased basis. It is important to note this housing was designed and built to be temporary housing. All buildings were constructed of cinder block on concrete block with sheetrock roofs. The residents of the apartments for the most part were of Japanese ancestry and had been recruited to work at Seabrook from the relocation centers of the West, where they have been entered as alien enemies at the beginning of the war with Japan.

In 1949, the Seabrook area saw the arrival of Baltic displaced persons whose entering the United States had been sponsored by Mr. Seabrook. Most of them came under the auspices of the Church World Service and were unable to return to their native country since they were for the most part members of the intelligencia who had most actively resisted the Russians during the Communist occupation of their country and had fled to Germany with the retreating German forces.

In 1971, C.F. Seabrook and its affiliate companies of Seabrook Housing Corp., Seabrook Village, Inc., were purchased by C.J. Achee and Mark H. Watson. C.J. Achee retained ownership of Seabrook Housing Corp., which comprised most of the residential units owned by the former Seabrook Estate.

No longer company housing and not designed for today's lifestyles, it began to deteriorate. By the mid-1980s, the units were considered by many to be substandard. Estimates placed 20 percent of the units to be unoccupied or abandoned. In the summer of 1987, the township committee learned that what was known as the East Village, now comprised of 326 apartment units, was to be sold and to be part of a housing rehabilitation project.
In the late summer of 1987, the township administration was approached by representatives of CDC Financial Corp. of West Hartford, CT, which firm was purchasing the project. The township understood that this was to be a private sale and once purchased, the project would be part of a HUD Moderate Rehab Program. The guaranteed subsidies on the rents would enable the new owners to undertake the rehabilitation and pay back the loans. Township officials, myself included, were under the definite impression that this project was a “fait accompli” and that the municipality had little say in the matter.

Still local officials were very concerned since we were well aware of the condition of the majority of the units in the project. Questions were asked as to whether such a project was a good candidate for rehabilitation. The density of the units was considerable under current standards for housing developments as noted above, construction was substandard, and there was a lack of facilities for residents. As company housing, amenities commonly and necessarily provided to tenants had been provided. Over the years and as the result of the change in ownership status and occupancy of the units, many such amenities no longer were provided.

In an effort to try and address what the community felt were deficiencies with the units themselves and the project in general, a meeting was held in September 1987 where the community placed before the new owners a list of recommended items which should be part of any rehabilitation. Again the community met with little, if any, success.

The project had been defined, its scope of work set and the funding available basically determined. This was most upsetting when considering the project’s sale price of $4.4 million and the budget set aside for the work to be undertaken. At the time, the project was assessed at slightly over $2,893,000, and the township average ratio was 93:63.

Fortunately, the township had been working on the adoption of a housing code. On September 3, 1987 the governing body did adopt the BOCA existing structures code.

There was considerable concern on the part of the new owners over the effect of this code on their project. There was a request made to have the township’s code officials sign off in a letter that the units in the project met all code standards with attached sample letter to be signed and returned.

Similar letters were sent to the other code officials—plumbing, electrical and fire safety. The code officials did not issue such letters.

About this time, the township committee did learn through State officials that the community could enforce its housing and construction codes on such a project. The township did immediately begin to enforce its higher standards.

Since that time, the community has been concerned with and had to address such matters as room sizes, the number of occupants per unit, assuring a higher quality of workmanship, the replacement of rotten or decayed materials as opposed to covering over them, certification that roofs were safe, and the provision of washer and dryer connections in each unit, or the provision of laundry facilities in a building onsite.
There has been a continuing dialog between the project owners, their contractors and township officials concerning the quality of the rehabilitation work. Meetings are held on a regular basis for this purpose, and copies of the minutes of these meetings are attached.

The owners claim that the project has had an $800,000 overrun due to the increased work required by the township. There still exists, however, serious questions on the part of local officials about the wisdom of this project and its effect on many long-term residents of our community, many of whom are elderly.

The rents to be charged for the project are quite high in comparison to the local housing market. There are further questions as to the need for such a large number of subsidized units in a municipality of our size. It is our understanding that the rents will continue to rise annually over the life of the Moderate Rehab Program.

The township has a particular concern for long-time residents of this housing, many of which have lived there for over 40 years. They are elderly and in many instances have a language barrier considering their background discussed earlier. Moving them out of their homes for the rehabilitation has been a traumatic experience.

New regulations have ended their gardens, the keeping of pets, and proposed laundry facilities were not to be located near their units.

The project owners have agreed to establish a section of the development for seniors and some of their concerns will be addressed within this area. But there is fear under the Section 8 guidelines many will not qualify for economic reasons to live in the project. Without subsidies, the rents will be too high and many are ineligible to receive assistance.

The township was never consulted by HUD about this project. No one from HUD has ever come to the township to talk to the governing body about the project or the community’s concerns. To this date, I am not clear, nor have I ever had the program fully and adequately explained to me.

I have attached to this statement a letter dated June 15, 1989, from former township committee member Gregory Facemeyer, who in 1987 was mayor. He, too, reiterates my sentiments and frustration at being kept in the dark about this project.

The township has never known what its powers and control over such a project encompassed. This is very upsetting when considering the amount of moneys involved and the impact of such a project on the community and its residents.

The local public officials honestly understood this was a Federal project operating through private interests and was beyond their involvement or control. Only through code enforcement has the municipality been able to make input and assure that the rehabilitation work that was assigned to be undertaken met its standards.

At present, approximately 60 percent of the units are complete and are substantially improved. The units do meet all code requirements. At this point in time, I am most concerned that the senior section of the project continue and finish the work already begun. Of greatest concern is the senior section, which will be of great importance to a number of residents.
The township has never been pleased with the way this project has come about but has done much to make it represent a rehabilitation which should be meaningful.

The township has recently submitted an application for a small cities grant to improve streets, storm drains, install curbs and sidewalks within the project. It is hopeful that the project owners will participate in another application aimed at addressing nonpublic issues such as adequate parking, lighting, play areas, and landscaping so that the project when complete will represent a neighborhood, its residents and the community can be proud. To this end, we are committed to continuing our efforts and ongoing dialog with the project owners to bring about a successful project.

I trust that my appearance here today will shed some light on how our community has become involved in this HUD program and has been placed in the spotlight of public scrutiny in the Nation’s media. Much remains to be done, and we would not want to see this partially completed project ended or cut off from further funding because of concerns about its origins.

At the local level, we can only hope that our representatives in Washington will somehow try to ensure that Federal involvement does not preclude or overlook local concerns and plans. Cooperation is the key to addressing many of our urban issues, and my presence here is in that spirit.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Peterson follows:]
Upper Deerfield Township

upper Deerfield Township is an approximately 32 square mile municipality located in northwest corner of Cumberland County, New Jersey. The Township is situated 36 miles south of Philadelphia, 30 miles east of Wilmington, Delaware, 50 miles west of Atlantic City and 17 north of the Delaware Bay. It is still largely a rural area where agriculture is the primary industry. Crops include vegetables, grains and nursery stock. Large portions of the community are now residential suburbs and a considerable amount of new development is proposed which threatens the continued rural, agrarian composition of the community.

The municipality is governed by a five member Township Committee of which I am the Chairman, thus the honorary title of "Mayor." Upper Deerfield is one of fourteen municipalities within Cumberland County.

At present, the population is estimated at 7,000 persons and has showed continual growth since the 1960's. As a farming community there is not a large commercial or industrial base and therefore many residents work outside the Township. The largest employers in the municipality are two food processing firms located in and around the locality of Seabrook.

Seabrook is named for Charles F. Seabrook, founder of Seabrook Farms frozen foods and a contemporary of Clarence Birdseye in the establishment of the frozen food business in the 1930's and 40's. It was largely at Mr. Seabrook's efforts that Upper Deerfield split from Deerfield Township and was incorporated as a municipality in 1922. Seabrook, due to its central
location within the Township, is the site of its schools, municipal hall and the former Seabrook Village, the reason for my appearance here today.

"C.F.," as Mr. Seabrook was known, was responsible for turning his father's 57 acre farm into a more than 3,000 acre conglomerate by the beginning of World War I. By the 1940's, the company's holdings was well over 20,000 spread over Cumberland and Salem Counties. Obviously, such an undertaking required considerable labor and laborers need housing. The Township's official history entitled: This Place Called Home, written by F. Alan Palmer, states:

"Because Seabrook Farms, as a food processor, was considered to be essential to the war effort and housing was necessary to provide shelter for its workers, the Federal Public Housing Authority in 1944 leased 48 acres of land from Seabrook and on it constructed thirty-five buildings containing a total of two hundred apartments and eleven dormitory buildings in which there were eighty-five apartments and one hundred and twenty-four sleeping rooms. The center block of each dormitory formed the main entrance to the building with a foyer finished with sofas and arm chairs as well as tables and chairs for writing and games. In this wing were also large shower rooms with an endless supply of hot water. Each dormitory was kept clean by a maid who also handed out clean sheets and towels to the occupants of the rooms every week. The rooms, although small, contained a rock maple desk chest, an arm chair and a comfortable single bed. When rent was finally charge in 1947, it amounted to only $2.50 a week. In more recent years the center portion of each dormitory was demolished and the sleeping rooms converted into additional apartments.

... In the Spring of 1946, since World War II had ended the previous year, the Federal Public Housing Authority wished to withdraw from the operation of the project and arranged to turn its holdings over to Seabrook Farms on a lease basis. Mr. Seabrook at that time decided to remove employee
housing from the supervision of the Personnel Department and, organized the Seabrook Housing Corporation..."1

Soon after their construction, the double rooms of the dormitories were converted into eighty-five apartments. This left 126 rooms for single persons. All buildings were constructed of cinder block on concrete block with sheetrock roofs. The residents of the two hundred apartments were for the most part of Japanese ancestry and had been recruited to work at Seabrook from the relocation centers of the West where they had been interned as "enemy aliens" at the beginning of the war with Japan. Eventually there was a population of approximately 2,500 Japanese living and working here. As of 1980, Japanese was the race of 4.1% of the Township’s population, and can be traced to this original migration.

In 1949, the Seabrook area saw the arrival of Baltic displaced persons whose entry into the United States had been sponsored by Mr. Seabrook. Initially most of the persons coming to the United States from the displaced persons camps of Germany were Estonians with a scattering of Latvians. Most of them came here under the auspices of Church World Service, and were unable to return to their native country since they were for the most part members of the intelligentsia who had most actively resisted the Russians during the Communist occupation of their country and had fled into Germany with the retreating German forces.

A final group of displaced persons, Germanic in origin, came to Seabrook in 1952 - a people for the most part who had at some point migrated from Germany to the eastern European countries, but who had retained their ties with their homeland and were unwilling to live under Communist domination and chose instead to migrate to America.

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1This Place Called Home, F. Alan Palmer, 1985, published by The Upper Deerfield Township Committee, Seabrook, New Jersey, pp. 24-25.
In 1971, C.F. Seabrook Company and its affiliate companies of Seabrook Housing Corporation, Seabrook Village, Inc., and Bauer Sales Corporation were purchased by C.J. Achee and Mark H. Watson, whose plans for the 12,000 acres comprising the estate amassed by C.F. Seabrook, included an immediate and widespread development of the area. In March of 1972, the new owners presented the Township Committee with a master plan for a new town to be known as "Agri-City." The project did not come to fruition for a number of reasons and the holdings again changed hands. C.J. Achee retained ownership of Seabrook Housing Corporation which comprised most of the residential units owned by the former Seabrook estate.

No longer company housing and not designed for today's lifestyles, the units began to deteriorate. By the mid-1980's the units were considered by many to be substandard. Estimates placed 20% of the units to have been unoccupied or abandoned. In the Summer of 1987, the Township Committee learned that what was known as the East Village, now comprised of 326 apartment units, was to be sold and to be part of a housing rehabilitation project.

In the late Summer of 1987 the Township administration was approached by representatives of CDC Financial Corporation of West Hartford, Connecticut, which firm was purchasing the project. The Township understood that this was to be a private sale and once purchased the project would be part of a H.U.D. Moderate Rehab program. The guaranteed subsidies on the rents would enable the new owners to undertake the rehabilitation and pay back the loans. Township officials, myself included, were under the definite impression that this project was a "fait accompli" and that the municipality had little or any say in the matter.

Still local officials were very concerned since they were well aware of the condition of a majority of units in the project. Questions were asked as to whether such a project was a good candidate for rehabilitation. The density of the units was considerable under current standards for housing
developments, as noted above, construction was substandard and there was a lack of facilities for residents. As company housing, amenities commonly and necessarily provided to tenants had been provided. Over the years and as a result of the change in ownership status and occupancy of the units, many such amenities no longer were provided.

In an effort to try and address what the community felt were deficiencies with the units themselves and the project in general, a meeting was held in September of 1987 where the community placed before the new owners a list of recommended items which should be part of any rehabilitation. Again the community met with little, if any success. The project had been defined, its scope of work set and the funding available basically determined. This was most upsetting when considering the project's sale price of $4.4 million and the budget set aside for the work to be undertaken. At the time, the project was assessed at slightly over $2,893,100.00 and the Township average ratio was 93.63%.

Fortunately the Township Committee had as a result of a study undertaken by the Planning Board been working on the adoption of housing code. On September 3, 1987 the governing body did adopt the BOCA Existing Structures Code. There was considerable concern on the part of the new owners over the effect of this code on their project. There was a request made to have the Township's Code officials sign off in a letter that the units in the project met all Code standards. See attached letter of August 18, 1987 from the law firm of Archer & Griner addressed to Fred Froelich, the Township Construction Official, with attached sample letter to be signed and returned. Similar letters where sent to the other code officials - plumbing, electrical and fire safety. The Code officials did not issue such letters.

About this time the Township Committee did learn through State officials that the community could enforce its housing and constructions codes on such a project. The Township did immediately begin to enforce its higher
Statement of Bruce T. Peterson, Mayor
Township of Upper Deerfield, New Jersey
Page 6.

standards. Since that time the community has been concerned with and had to address such matters as room sizes, the number of occupants per unit, assuring a higher quality of workmanship, the replacement of rotten or decayed materials as opposed to cover over them, certification that roofs were safe and the provision of washer and dryer connections in each unit or the provision of laundry facilities in a building on-site.

There has been a continuing dialogue between the project owners, their contractors and Township officials concerning the quality of the rehabilitation work. Meetings are held on a regular basis for this purpose and copies of the minutes of these meetings are attached. The owners claim that the project has had an $800,000.00 overrun due to the increased work required by the Township.

There still exist however, serious questions on the part of local officials about the wisdom of this project and its effect on many long time residents of our community, many of whom are elderly. The rents to be charged for the project are quite high in comparison to the local rental housing market. The rents for this project are as follows:

<table>
<thead>
<tr>
<th></th>
<th>First Year</th>
<th>Second Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>One bedroom</td>
<td>$484.00</td>
<td>$505.00</td>
</tr>
<tr>
<td>Two bedroom</td>
<td>$557.00</td>
<td>$581.00</td>
</tr>
<tr>
<td>Three bedroom</td>
<td>700.00</td>
<td>725.00</td>
</tr>
</tbody>
</table>

It is our understanding that the rents will continue to rise annually over the life of the moderate rehab program.

A study prepared for the new owners by the Appraisal Group, Inc. and dated June of 1987 showed the following rental rates from a survey of area rentals:

<table>
<thead>
<tr>
<th>Project Name</th>
<th>1 BR</th>
<th>2BR</th>
<th>3BR</th>
<th>UTILITIES</th>
</tr>
</thead>
</table>

Cumberland Green  
Millville, N.J.  
$365-390  
$435-455  
Tenant pays all

Mill Village  
Millville, N.J.  
$403  
$450  
Tenant pays all

Millville Gardens  
Millville, N.J.  
$345  
$415  
Tenant pays all

Lakeview Manor  
Millville, N.J.  
-  
$375  
Tenant pays all

School Village  
Seabrook, N.J.  
-  
-  
$365  
Tenant pays all

Gunnison Village  
Seabrook, N.J.  
-  
-  
$460  
Tenant pays all

The conclusion of the rental survey was that "[t]he rental survey indicates that the range of rents for:

1 bedroom apartment is $345 to $403

2 bedroom apartment is $375 to $455

3 bedroom apartment is $365 to $460

The rents projected by the subject indicate a higher rate than the market. These rents are supportable due to the proposed renovations and to Section 8 HUD contracts which provide rentals at 120% of market."

The Township has a particular concern for long time residents of this housing many of which have lived there for over 40 years. They are elderly and many instances have a language barrier considering their background discussed earlier. Moving them out of their homes for the rehabilitation has been a traumatic experience. New regulations have ended their gardens, the keeping of pets and proposed laundry facilities were not be located near their units.

The project owners have agreed to establish a section of the development for seniors and some of their concerns will be addressed within this area. But their is fear that under the Section 8 guidelines many will not qualify
for economic reasons to live in the project. Without subsidies, the rents will be too high and many are ineligible to receive assistance.

Problems like those listed here are what has concerned our community and its representatives from the beginning. The Township was never consulted by H.U.D. about this project. No one from H.U.D. has ever come to the Township to talk to the governing body about the project or the community's concerns. To this date, I am not clear, nor have I ever had the program fully and adequately explained to me. I have attached to this statement a letter dated June 15, 1989 from former Township Committee Gregory J. Facemyer, who in 1987 was Mayor. He too reiterates my sentiments and frustration at being kept in the dark about this project.

The Township has never known what its powers and control over such a project encompassed. This is very upsetting when considering the amount of monies involved and the impact of such a project on the community and its residents. The local public officials honestly understood this was a federal project operating through private interests and was beyond their involvement or control. Only through code enforcement has the municipality been able to make input and assure that the rehabilitation work that was decided to be undertaken met its standards.

At present approximately 60% of the units are complete and are substantially improved. The units do meet all code requirements. At this point in time, I am most concerned that the project continue and finish the work already begun. Of greatest concern in the senior section, which will be of great importance to a number of residents. The Township has never been pleased with the way this project has come about, but has done much to make it represent a rehabilitation which should be meaningful.

The Township has recently submitted an applications for a Small Cities grant to improve streets, storm drains, and install curbs and sidewalks within the project. It is hopeful that the project owners will participate
in another application aimed at addressing non-public issues such as adequate parking, lighting, play areas and landscaping so that the project when complete will represent a neighborhood its residents and the community can be proud. To this end we are committed to continuing our efforts and ongoing dialogue with the project owners to bring about a successful project.

I trust that my appearance here today will shed some light on how our
community became involved in this H.U.D. program and has been placed in the spotlight of public scrutiny in the nation's media. Much remains to be done and we would not want to see this partially completed project ended or cutoff from further funding because of concerns about its origins. At the local level we can only hope that our representatives in Washington will somehow try to insure that federal involvement does not preclude or over-
look local concerns and plans. Cooperation is the key to addressing many of our urban issues and my presence here is in that spirit.
August 18, 1987

Mr. Fred Froelich
Upper Deerfield Twp. Municipal Bldg.
State Highway 77
Box 5098
Seabrook, New Jersey 08730

Re: Seabrook Apartments -- Upper Deerfield Township
Cumberland County, New Jersey
Block 49, Lots 1 & 3, Block 50, Lot 1, Block 52,
Lot 1, Block 51, Lot 1, Block 53, Lots 1 & 2,
Block 54, Lot 1, Block 55.01, Lots 1, 2, 3 & 4,
and Block 56.01, Lots 1, 2 & 3

Dear Mr. Froelich:

This is to confirm my conversation with you of August 14,
1987, in which you advised me that, to the best of your knowledge,
there are no existing violations of any current codes, ordinances,
statutes or regulations at Seabrook Apartments. I have enclosed
a letter to that effect for your signature. If this letter is
satisfactory, kindly sign and return it to me in the accompanying
stamped, self-addressed envelope.

As I indicated to you on the telephone, your assistance in
this matter is greatly appreciated.

Very truly yours,

ARCHER & GREINER
A Professional Corporation

By: Allen M. McDowell
Law Clerk

EMM: bob
Enclosures
Cary A. Levitt, Esquire
Archer & Greiner
A Professional Corporation
One Centennial Square
Haddonfield, New Jersey 08033

Re: Seabrook Apartments -- Upper Deerfield Township
Cumberland County, New Jersey
Block 49, Lots 1 & 3, Block 50, Lot 1, Block 52,
Lot 1, Block 51, Lot 1, Block 53, Lots 1 & 2,
Block 54, Lot 1, Block 55.01, Lots 1, 2, 3 & 4,
and Block 56.01, Lots 1, 2 & 3

Dear Mr. Levitt:

This letter confirms my recent telephone conversation with
your office. In particular, to the best of my knowledge, Seabrook
Apartments is not presently in violation of any current code,
ordinance, statute or regulation.

Very truly yours,

Fred Froelich
Construction Official
Upper Deerfield Township
On July 13, 1988 a meeting was held in the Municipal Building of the Township of Upper Deerfield at 1:00 P.M. between the Township of Upper Deerfield and CDC Financial Corporation.

Township Members were: Edward Fleetwood - Housing Officer, Harry R. Dace III - Township Administrator, Bruce Peterson - Township Committee, Doug Rainier - Township Committee, Dominic Casco - Plumbing Sub-Code Official, Gary Wallen - Fire Sub-Code Official, Milton Truxton - (Acting) Construction Official.

CDC Members were: David Bearce V.P. CDC Financial, Perry Smart - Construction Manager, Judy Provenzano, Carol Barnas and George Baker.

Department of Community Affairs: Diane Kane, C. Beal, D. Heinz and Nick Pascale.

Office of Congressman Hughes: John N. Mraz.

This meeting was to clarify a number of problems and to establish a form of communication between Upper Deerfield Township and CDC Financial representing Buttonwood Village.

Bruce Peterson, Township Committee, went over some of the problems of concern:

1. Workmenship in the area of door - including glass in door (safety glass), lock on door (dead bolt lock), windows, screens and locks, walls and ceiling should be cleaned, painted or wall-papered. Floors cleaned. Ground, landscaping and trash collection.

2. Removal of asbestos and the storage of the container for asbestos.

3. Consideration of the changing of the name from Buttonwood Village to ?.

4. Plumbing - having air test done in lines per Plumbing Sub-Code Official, Dominic Casicio.

5. Consideration for the senior citizens in the area because of language barrier and inability to have checking accounts. Also, the isolation of senior citizens. Have rental payments deposited in near by bank since cash would not be accepted at the office.

6. Problem with building #24 - roof: five layer of shingles on the roof, only three are allowed under the building code. On building #25 - roof: sheathing was found to be a sheet rock type material. Shingles were missing on the roof and also sage or helles. Roofing nails lift through the shingles when pressure is applied.

7. More communication between Township and CDC Financial.

8. The Township would like a commitment of work schedule with a time frame for completeness.
All the items were addressed either by David Pearce - Vice President or Perry Smart of CDC or a representative of Buttonwood Village.

1. In the area of the doors - safety glass would be installed, and proper locks. Windows would be provided with screens and locks. Workmanship would be checked in the interior of all apartments for clean and sanitary conditions. Ground, landscaping and trash collection is still pending.

2. Certification requested by Acting Construction Official Milton Truxton for air quality for apartment where asbestos removal is being done would be obtained.

3. Consideration of the name from Buttonwood Village is being considered.

4. Water line must be air tested per Dominio Cesario, Plumbing Sub-Code Official - no confirmation of this subject.

5. Senior citizens would be put in the area of the 30 apartments in the front of the complex for safety reasons. Will be more considerate of the problems of the senior citizens.

6. Certification requested by Acting Construction Official Milton Truxton and Fire Sub-Code Official Gary Wellen for a certification from an engineer in writing with a seal stating the roof of Bldg. #14 is safe for occupancy and safe structure.

7. Communication - a meeting to be held once a month with Township Official and member of CDC and DCA to be brought up to date with latest development.

8. Commitment of work schedule - pending.

This meeting was adjourned at 2:30 when member of the Township Committee and CDC and DCA went to the sites in question for an on site inspection.

The next meeting will be on July 27, 1988 at 1:00 P.M. in the Municipal Building in the Township of Upper Deerfield.
On July 27, 1988 a meeting was held in the Municipal Building of the Township of Upper Deerfield at 1:00 P.M. between the Township of Upper Deerfield and CDC Financial Corporation.

Township Members were: Edward Fleetwood, Housing Officer, Harry R. Dare III, Township Administrator, Bruce Peterson, Township Committee Man, Doug Rainer, Township Committee Man, Fred Froelich, Construction Official.

CDC Members were: David Bearer, Vice President CDC Financial, Perry Snart, Construction Manager, Judy Provenzano, Carole Barnes and George Baker.

Department of Community Affairs: Diane Kane, C. Basil, D. Heinz and Nick Pascale.

This meeting was the second meeting between the Upper Deerfield Township and CDC to go over some of the aspects for the Buttonwood Village project.

Bruce Peterson, Township Committee Man speaking for the Township mentioned that the Township is still very concerned about the over all aspect of the project. The Township has asked CDC for an agenda with a time frame for work being done now and for on going maintenance. Mr. Peterson also stated that the ground and parking were a disaster.

CDC is in the process of formulating a letter with a list of on going project that are being worked on such as locks and chains for doors, safety glass on doors and privacy locks off bathroom doors. Painting on the building is an on going project both inside and outside. It was also mentioned that the dumpster are not permanently place but, are being place for just the removal of trash at this time. Mr. Fleetwood states that the Township does have an ordinance for the placing of dumpster (Chapter 98 Section 25) and would CDC notify his office when there are ready to place the dumpster permanently.

After discussion on the above matter CDC will supply the Township with a mark site plan showing in details all of the improvements that will be done such as landscaping, curbing & sidewalk, parking, location of the dumpster, etc. This should be provide in an reasonable amount of time.

It was brought to the attention of CDC that without gutters all the new paint on the buildings were being spotted up with mud. Carole Barnes of CDC stated that the plans was to wait for new roofs to be put on before gutters were to be installed because gutter could not be save when new roof would be put on. Because of the money situation with the project new roof are not expected to be put on for 3 to 5 years and that the paint use on the building are of a washable base.

The question of roof: The Township would like every building certified for structural strength. Mr. Fleetwood state the the report from Mr. Stubeck was not for building #24 but for building # 25. CDC agree to have every building certified for structural strength concerning the roofs.
CDC mentioned about putting in a coin-operator laundry next to the Rental/Workshop Office in a central location. The laundry could be operated by some kind of tokens so only the tenants would be able to use the laundry.

Other subjects that were mentioned at the meeting were: Insulation factor for the building, landscaping condition of trees (trimming and removing of dead trees). Heating system and hot water heater are there being maintained for safety! Also the name change for Buttonwood Village was mentioned again and is still being worked on. The question of Senior Citizens location was brought up again and CDC stated that a plan for the western end of the project near the bank was being considered for the elderly and certain privileges might be provided such as shed, garden, and pets. Approximately 39 units for the elderly with 13-2 bedrooms and 19-1 bedroom. CDC was asked by Mr. Fleetwood to check the size of the room that some were very small. CDC did tell the Township that a letter about senior citizens is on the way.

Also CDC asked about the small buildings behind the Moore School to be used as an administrator office and was told that they belong to the Board of Education.

It was mentioned several times about the state sending Carla Learner of the Balance Program to come look over the whole project so additional funding for this project might be obtained. If additional funding will be made available for the Buttonwood Project many decisions would need to be made.

Mr. Fleetwood suggested to CDC that the next tenants meeting August 5, 1988 that the tenants be notified at least a week before the meeting and not a day before or that the day of the meeting. August 5, 1988 meeting will be held by the Department of Community Affairs to go over rental assistance and questions that might come up.

A discussion was held on when the monthly meeting should be held and the last Tuesday of the month at 2:00 P.M. was selected. The next meeting will be held August 30, 1988 at 2:00 P.M. in the Municipal Building in the Township of Upper Deerfield.
On August 30, 1988 a meeting was held in the Municipal Building of the Township of Upper Deerfield at 2:00 P.M. between the Township of Upper Deerfield and CCO Financial Corporation.

Township Members were: Edward Fleetwood, Housing Officer; Bruce Peterson, Township Committeeman.

CCO Members were: David Pearce, V.P.; Ferry Smart, Construction Manager; Judy Frova and Carole Barnes.

Department of Community Affairs: Nick Pascale and Debbie Heinz.

Partners in Seabrook Assoc., Victor Cruz and Jim Fox.

This is the third meeting between the Upper Deerfield Township and CCO concerning the Butternut Village project.

Bruce Peterson, Township Committeeman speaking for the Township was unable to meet with all of the concerns that the Township of Upper Deerfield would address at this meeting:

1. Still waiting for Site Plan & Time frame
2. Name change
3. Gutters and downspouts
4. Roofs (structural strength)
5. Curbing
6. Workmanship (windows, doors, painting)
7. Sidewalk
8. Parking
9. Location of Dumpster
10. Reinspection by Housing Officer

Mr. Peterson stated to CCO that the Township is having problems letting CCO's being issued with work not being complete because there would be tied in with the site plan. The Township can't keep giving CCO's unless we have some kind of commitment from CCO. Also the Laundry & rental/workshop office will have to go before the Planning Board for approval.

David Pearce of CCO reported that the site plan was not done yet and also the name change - both items were still on the agenda and that CCO would be able to present the site plan on October 1, 1988.

Victor Cruz of Seabrook Association asked the Township about the Housing Ordinance which is now in effect and Mr. Peterson explain all of the aspects of the Ordinance. Mr. Cruz is very concerned with the project at Butternut and wanted to know why it is so hard to obtain a CCO's from the Township and stated that the project is now six months behind schedule. Mr. Peterson explained because of poor workmanship and the need for reinspection for the same violations over and over the project was being held up. Also that the Township was not charging for second and third inspections and that this was a very time consuming job. Other aspects of the project were gone over such as roofing, landscaping, parking, gutters and downspouts, etc. Mr. Cruz guarantee that all of the problems of poor workmanship would be look into and somebody from CCO will be here at least two days a week for the Township to contact. A site plan and a possible time frame will be made available to the Township. Mr. Cruz did
Assure everyone concerned that he will be looking into all of the above problems and apologize for not being aware of this situation sooner.

Mr. Peterson repeated that the time frame along with a preliminary site plan is needed for the project to continue forward. The date was changed from October 1, 1988 to October 3, 1988 for the site plan as October 1 is a Saturday. The meeting for September 27, 1988 was canceled and a meeting will be scheduled later.
On October 18, 1988, a meeting was held in the Municipal Building of the Township of Upper Deerfield at 11:00 a.m. between the Township of Upper Deerfield and CDC Financial Corporation.

Township Members were: Edward Fleetwood, Housing Officer; Bruce Peterson, Township Committee and Harry Dare III, Township Administrator and Planner.

CDC Members were: Carole Barnes, David Bearce, Judy Provenzano and Seth Shepard.

Department of Community Affairs: Diane Ximena, Debbie Heinz, Bob Haug, and Craig van Bael.

Partners of Seabrook Associates: Victor Crus and Jim Fox.


This is the fourth meeting between the Upper Deerfield Township and CDC concerning the Buttonwood Village project.

Bruce Peterson, Township Committee, speaking for the Township stated the main concern today was to work out a time frame to get the entire project done since a long period of time has gone by with many concerns still unanswered.

P. Stubbe of Stubbe Engineering submitted a draft of the preliminary site plans to the Township which included concerns for lighting, road improvements, location for dumpsters, parking, drainage, landscaping, manhole situations and driveways. A complete preliminary site plan will be submitted to the Township November 14, 1988 and the Township will schedule a meeting at a later date. Mr. Dare stated it would be very helpful if Mr. Stubbe gets a site plan together addressing all issues that the Township is concerned with and that were brought up at the last meeting and then submit a schedule of when these things could be completed. Mr. Stubbe noted that he did not believe a final site plan would be ready until December. This would include sites for the Administrative Buildings as well as the laundry facilities for tenants.

Victor Crus submitted a time schedule for the site improvements and is working with the Dept. of Community Affairs to find the funds for the site improvements. He brought with him a list of site improvements for the township to review and discuss at a later date. Bruce Peterson noted that he wanted the time frame to be shorter than the 6 years planned. He noted he would like this to be completed in 5 years. Mr. Crus stated there would be a problem with that due to Abcon construction going on. As soon as Abcon is finished with construction than Phase II could come into effect.

Victor Crus is very receptive to a name change and will submit a list to the Township.

Mr. Fleetwood discussed his concerns about washer and dryer hookups for the senior citizens with Mr. Bearce and Mr. Peterson. The main concern is icy sidewalks during the winter being a hazard to the seniors.
Diane Kinana needs designation for elderly before any monies can be funded. David Bearce promised to get the letter off to her. Buildings 9 to 13 or 7 to 11 will be considered. Ms. Kinana shares the Township's concerns about getting the construction done. She also has concerns about tight budgets on this project. She feels confident that they can get funding for the landscaping and all energy related items can be done. There is a verbal commitment that this will happen and that Tri County will be involved in this portion of the project. The weatherization program will be handled by Tri County. Seabrook Assoc. have made applications with the Dept. of Communication. The weatherization program will include: insulation, storm doors, storm windows, hot water heaters, heaters and other weather related items.

Mr. Fleetwood still has problems with the dumpsters being emptied. Ms. Provenzano stated that trash was being picked up two times per week but was having problems with tenants actually putting the garbage in the dumpsters. The children lay the trash along side the dumpsters and if it is a large item it seems to get put next to the dumpster. Mr. Peterson still had a problem with the dumpster lighting. Mr. Cruz stated that dumpster situation would be worked out as soon as possible.

Mr. Peterson is still concerned with the time schedule that items have not been locked in with a more specific time plus the fact that the Township has been writing off building and issuing conditional C.O.'s. Mr. Peterson still has concerns with the lighting situation and the problems that may arise concerning the safety of the residents and property. He wants this to be handled top priority. Mr. Cruz agreed.

Mr. Peterson wanted to be kept informed about the status on different applications. Ms. Kinana agreed. Mr. Cruz will find out about other options and other programs to get monies for this project.

Mr. Dare would like to see a schedule and a site plan submitted to help CDC and DCA in additional grant monies.

The Township will schedule the next meeting at a later date.
On November 29, 1988 a meeting was held in the Municipal Building of the Township of Upper Deerfield at 10:00 A.M. between the Township of Upper Deerfield and CDC Financial Corporation.

Township members were: Edward Fleetwood, Housing Officer, Bruce Peterson Township Committeeman

CDC Members: George Baker

Department of Community Affairs: Craig Van Baal, Debbie Heinz, Nick Pascale

Stubee Engineering Association: Paul H. Stubee

This is the fifth meeting between the Upper Deerfield Township and CDC concerning the Buttonwood Village project.

George Baker made request of the Township that CDC be allowed to use building 8B as a hotel, for moving residents around the complex until permanent facilities are available. This complex will be completely rehabilitated, therefore necessitating the use of temporary housing. The tenants would pay their current rent fees while awaiting completion of their units. It was also pointed out that rehabilitation of the senior citizens' section rehabilitation process would not begin until the Spring, as there was concern over relocating the elderly during winter weather. Mr. Baker also stated that building 31 was ready and that buildings 27 and 28 would be finished today. Framing is under way on building 29 and Mr. Baker stated that his projections on desired progression would be to have the project completed by June or July.

Bruce Peterson, Township Committeeman, stated that the majority if not the entire complex would fall around the 'Drug Free' zone. This program, (already a New Jersey law) is being adopted by the Township. This includes areas within one thousand feet of the School District.

Ed Fleetwood, Housing and Zoning Officer, expressed that his main concerns were the lack of gutters and downspouts and the possibility of icy conditions on sidewalks and steps which would be a safety hazard to residents. Mr. Baker questioned the feasibility of doing the gutters and downspouts at this time as grading would have to be done first and that there was the possibility of erosion until the soil is stabilized. Mr. Baker suggested that hydroseeding was a possibility to prevent this, but this, of course, could not be done until Spring and that it would be best to hold off on the gutter and downspout work until then. The availability of funding for this work was questioned. Nick Pascale mentioned that this could be taken care of through a reserve account set up under contract between CDC and DCA. CDC is also in the process of getting competitive bids on additional roof replacements.

Bruce Peterson introduced that Paul Stubee, of Stubee Engineering and George Baker be aware of the State Mandatory Recycling law that becomes effective in June. The law states that all trash be separated into three categories:
1. papers, junk mail
2. glass & cans
3. general trash

There was discussion and speculation as to how this law could be enforced.
Mr. Peterson was concerned if there was enough area for the dumpster pads on the site plan submitted by Mr. Stube.

Concern was also expressed over sufficient parking facilities in reference to buildings #1, 2, and 8. Mr. Fleetwood and Mr. Stube had discussed the possibility of eliminating the sidewalks behind buildings 1 and 2 to provide more parking space.

Other topics of concern were exterior site lighting and laundry facilities. Mr. Baker stated that all units have temporary washer hookups, but the possibility of having permanent hookups for the elderly is being looked into. Facilities for dryers is questionable because of the need for dryers to be vented.

A tentative meeting was scheduled for Tuesday, January 17, 1989
On January 24, 1989, a meeting was held in the Municipal Building of the Township of Upper Deerfield at 7:30 A.M. between the Township of Upper Deerfield and CDC Financial Corporation.

Township members were: Edward Fleetwood, Housing Officer, Harry R. Dare, Township Administrator, Bruce Peterson, Township Committeeman

CDC Members: George Baker, Carole Barnes, David Beerce

Department of Community Affairs: Craig Van Bael, Debbie Heinz, Diane Kinane, Nick Pascale

This is the sixth meeting between the Upper Deerfield Township and CDC concerning the Buttonwood Village Project.

Mr. Peterson stated his concerns over the fact that no site plan had been submitted as of yet. It had been promised since November and at this point saw no reason to give any more conditional C.O.'s until the complete site plan is received.

Mr. Baker stated that the site plan was reviewed at the last meeting as being fairly complete, but that the architect in charge had backed out and that they (CDC) were in the process of getting another architect.

Mr. Peterson asked the status of the site plan. Mr. Baker stated that the drawing and all the information is complete and that it was just a matter of presenting the package plus the drawing.

Mr. Peterson expressed that there did not seem to be fair cooperation as far as scheduling of work to be done and that there were not enough workers coupled with the fact that they are untrained and unprofessional. This poor management seems to be the main problem causing the slow down.

Mr. Beeree answered by stating that CDC was ready to address making a proposal to the present contractor to delete ten buildings from the present contract and bring in another professional contractor to work on these ten buildings to put out a better example of the quality of construction and speed with which the work should be done. If the existing contractor does not equal that, then other measures will be taken. It is their (CDC) desire to bring in this other contractor by the name of Carabietta Construction, by February 1, 1989. Carabietta is presently doing 3,000 units in Asbury Park. The present contractor would be working with Carabietta, but on separate sites.

Ms. Kinane stated that she would need a formal request and justification to bring in this second contractor.

Mr. Ed Fleetwood, Township Zoning Official, inquired if there were any more developments regarding the possibility of a change of name of Buttonwood Village. Mr. Baker stated that a name change away from what Shabrock used to be would be a positive thing. No decision has been made as of yet.

Mr. Fleetwood brought up the subject of direct deposit for Senator Citizens. This had been brought up in a prior meeting. Ms. Barnes stated that the local bank would not cooperate. The bank did not seem to have sufficient facilities to handle any complex transactions. Ms. Barnes asked for suggestions on names of other banks that may be able to handle this.
Dumpster locations was another topic of discussion, along with the subject of
the new law that becomes effective in June requiring that all trash be
separated into the three categories of paper, (junk mail), glass and cans
and general trash. Mr. Barnes stated that the dumpster company that
COD used informed them that it was not necessary to separate the trash
for dumpsters.

Mr. Peterson suggested that Mr. Barnes confer with CCIA (Cumberland County
Improvement Authority) about this as the landfill will not accept compacted,
mixed trash. Mr. Barnes stated that there is a total of 23 dumpster pads and
that so far they are under contract for one pickup per week. This
seems to be sufficient for the time being. If this becomes a problem then
they will contract for two pickups per week.

Mr. Peterson was concerned over a lead paint problem that exists. Mr. Peterson
questioned why no one requested lead paint testing when there are Federal and
State standards and that there was no effort made in compliance with this.

Mr. Barsee stated that the Federal Regulations are only concerned with the
flicking and falling of paint that children could easily pick up and chew.
Once scraping and repainting is done, it would be in compliance with the
Federal Regulations, not beyond that they really were not sure what the
State and Local requirements are. Mr. Peterson stated that this testing should
have been done in the beginning of the project. Mr. Kinane stated that the
Federal Government had just begun to require testing in November of 1988.
Mr. Kinane pointed out that as long as the problem is addressed, such as
the covering up or sealing of the paint, and replacement or scraping
and repainting of doors and windows, they see no problem in keeping with
Federal Standards. Contractors and workers would be wearing masks when
working to protect them from the dust containing lead. DCA is now required
to test all units because they have purchased the testing equipment and have
a trained staff to utilize it. Mr. Fleetwood pointed out that the Township
Regulations for lead-based paint are more stringent than the Federal regulations.

Mr. Peterson wanted an idea of when the Weatherization Program would be coming
through for funding. Mr. Barsee stated that he would follow up on this.

Mr. Peterson stated that if the site plan for the project is not in by
February 6th, no more conditional C.O.'s would be issued.

Mr. Fleetwood commented that in light of the recent breaking and enterings from
one apartment to another through the firewall in the attic, he suggested
that a wire mesh be placed with the firewalls as was suggested by the Townships
Code Officials before the project was started.

The next meeting was scheduled for Monday, February 6, 1989 at 11:00 A.M.
On February 6, 1989, a meeting was held in the Municipal Building of the Township of Upper Deerfield at 11:00A.M. between the Township of Upper Deerfield and CDC Financial Corporation.

Township members were: Bruce Peterson, Township Committeeman and Edward Fleetwood, Housing Officer.

CDC Members: George Baker and Perry Smart

Department of Community Affairs: Craig Van Baal, Deborah Heinz and Nick Pascale.

This is the 7th meeting between the Upper Deerfield Township and CDC concerning the Buttonwood Village Project.

George Baker of CDC stated that Paul Stubee of Stubee Engineering was to come in to submit a site plan sometime during the day but could not give a definite time. Mr. Stubee was not present at the meeting.

Mr. Baker also mentioned that intentions were to start the Administrative Building prior to completion of the project.

Bruce Peterson, Mayor of Upper Deerfield Township, spoke with Ralph Cocove, Committeeman and Executive Vice President of Farmers and Merchants Bank, in reference to direct deposits for the senior citizens. Mr. Cocove explained to Mr. Peterson that there had been a change of managers and that he saw no problem in providing this service.

Mr. Baker spoke with Larry Clark of Cumberland County Improvement Authority and asked him to submit a letter in reference to the trash sorting regulations. These regulations will have to be complied with. CDC is considering keeping the main trash near the tenants, but having more centralized locations for paper and bottles in an attempt to comply with these regulations. In-house pickups for the paper and glass is also being looked into for the elderly.

Mr. Baker spoke of the Weatherization Funding Program. Mr. Baker spoke with Mr. Manson of Tri-County. Mr. Manson's attorney for Tri-County spoke with the Attorney General's Office of the State of New Jersey as to what funds would be available for this project. It seems at this point as though the project will not be able to qualify.

Though this information is not yet confirmed CDC will, however, begin the application process of funds not yet received from SCOPE funds.

Mr. Baker questioned if the results of the lead-based paint test were received. Mr. Pascale replied that no report has been received as of yet, but it is anticipated in a few weeks.

Mr. Peterson brought up the fact that at the last meeting questions were raised about the quality of work concerning the project. Mr. Baker stated that the building that were previously inspected were those done prior to an agreement with ABCON Sales to do more dry wall work. He added that wall surfaces now have improved greatly.

Mr. Peterson pointed out that a problem still exists with inexperienced help regarding the work crew and insufficient supervision.
Mr. Fleetwood, Housing and Zoning Officer of Upper Deerfield Township was concerned with the time schedule for site improvements. Mr. Smart, of CDC, answered by stating that the objective is to complete the project by the 3rd quarter of this year. Mr. Cruse and Mr. Beacce are to attend the next meeting to discuss a time table.

The problem still exists concerning the change order minus one building. Mr. Baker replied that nothing has been formally submitted as all of the details concerning the change order, such as prices, etc. have not been worked out as of yet.

Mr. Peterson asked CDC if they would look favorably upon the possibility of the Township doing special assessments for site improvements such as sidewalks and curbing, since the Township had plans on doing road improvements throughout the project.

The next meeting was scheduled for February 20, 1989 at 11:00 A.M.
On March 29, 1989, a meeting was held in the Municipal Building of the Township of Upper Deerfield at 11:00 AM between the Township of Upper Deerfield and CDC Financial Corporation.

Township members were: Bruce Peterson, Mayor and Edward Fleetwood, Housing Officer.

CDC Members were: George Baker and Carole Barnes

CFM Development Corp. were: Victor Cruse, 

Department of Community Affairs: Craig Van Baal, Deborah Heinz and Nick Pascale.

This is the 9th meeting between the Upper Deerfield Township and CDC concerning the Buttonwood Village Project.

Mr. Fleetwood, Housing Officer of Upper Deerfield Township began by stating that according to the construction crew no plans were drawn up as of yet for the Administration Building. Paul Stubbe, an engineer present at the meeting, stated that before any more details are done on the plans that there is a need to further evaluate the cost of the building. The plans will be developed based on that estimate. Mr. Peterson, Mayor of Upper Deerfield Township questioned the time frame on this. Mr. Stubbe gave an estimate of approximately 1½ months. Mr. Stubbe added that this will also supply an immediate figure that could be bonded to. Mr. Cruse of CFM Development Corporation wanted an explanation for the reasoning behind requiring a bond, as this is seen as only being an added expense. Mr. Peterson replied by stating that this will provide the Township with a guarantee that this building will be built. Mr. Fleetwood clarified that a performance bond is required by Township law. Mr. Cruse also stated that there were other options that may be considered, such as using an already existing building for the Administration Building. Mr. Peterson reminded Mr. Cruse that Planning Board approval would be required if this were the case. Mr. Cruse realized this, but any movement decisions at this point will greatly depend on cost of the new building versus using an existing building. The main concern is to have a functional Administration Building. Mr. Pascale of the Department of Community Affairs suggested that there may be an alternative to a performance bond in guaranteeing that the Laundry facilities/Administration building will be done so that the extra burden of an expensive bond would not be placed on the owner. Mr. Pascale suggested a meeting to explain how the program works and possibly come up with a solution as to guarantee.

Carole Barnes assured the Township that the registration forms for the units are being completed.

It is now relatively definite that the new home for the project will be Countryside Village. There was some concern as to how to explain the name change to the residents.

Barnes thinks that there is a problem dealing with Farmers & Merchants bank as a whole, concerning the matter of direct deposit for the senior citizens. Mr. Peterson will contact Ralph Cocove concerning this.
George Baker informed the Township that they now have the application concerning the Weatherization Program. A meeting is scheduled 3/29/89 to determine how to have the applicants complete the application.

Mr. Peterson is still concerned with the lead-based paint. Mr. Pascall is confident that this problem will be solved when the Weatherization Program is finalized.

Mr. Cruse stated that he is hoping to have the project completed by September 3, 1989. He is concerned, though, that there is a possibility that HUD can terminate their contract in June, but he will request an extended completion time. The relocation of tenants is one of the possible problems causing the delay in completion. Some of the tenants do not want to move to a lesser desirable area for temporary relocation while their units are rehabilitated. Mr. Cruse also stated that it was not practical to have only one day per month to move RAP tenants. In addition, Mr. Cruse requested some leniency from the Township on inspections for temporary relocations. The Township has agreed to abide by the minimum HUD regulations for these relocations.

Mr. Fleetwood stated that the Seniors should be moved during the summer months. Mr. Stube seemed confident that the elderly section will be completed by the end of July.

The next meeting was scheduled for Monday, April 17, 1989 at 10:00 A.M.
On April 14, 1989, a meeting was held in the Municipal building of the Township of Upper Deerfield at 10:00 A.M. between the Township of Upper Deerfield and CDC Financial Corporation.

Township members were: Bruce Peterson, Mayor and Edward Fleetwood, Housing Officer.

CDC Members were: George Baker and Judy Provenzano

CPM Development Corp.: Seth Shepard

Department of Community Affairs: Nicholas Pascale, Craig Van Baal and Deborah Heinz

This is the 10th meeting between the Upper Deerfield Township and CDC concerning the Buttonwood Village Project.

George Baker of CDC informed Mr. Fleetwood, Housing Officer of Upper Deerfield Township, that since last week, construction will begin on 2 buildings per week. He wanted to clarify that there will not be a turnover of 2 buildings per week for inspection until approximately 6 weeks from now.

Mr. Fleetwood was concerned about the tripping conditions on the sidewalks. Mr. Baker assured that this problem is already being addressed as 3 dump trucks with fill dirt have already been ordered and should be in today.

Mr. Fleetwood then questioned about the Weatherization Program. The project in general has been approved, as Mr. Baker stated, but this can only be done after the tenants are in place. CDC will be submitting all units for funds as it is not yet determined what funds were expended initially.

Mr. Peterson stated that the Township has signed a contract to hire a granteeman, Mr. Mark Blauer, to make application for a small cities grant.

Mr. Baker has informed the Township that Carole Barnes has gotten the proofs for the project name change to Countryside Village, which she has basically approved. New letterheads will be printed and preparation is being made to announce the new name to the residents.

Mr. Fleetwood inquired about the direct deposit for the senior citizens. Mr. Peterson explained that he will have to meet with the President of the bank to discuss this. Ms. Provenzano stated that she talked with Ann Miller concerning this. Ms. Miller drew up an agreement, which Ms. Provenzano submitted to Ms. Barnes for review.

Mr. Fleetwood requested that when the seniors are moved to a temporary location that he be informed as to where they are being relocated.

Mr. Peterson asked if there was any more progress on the proposed Laundry/Administration building. Mr. Shepard of CPM Dev. Corp. will be submitting an estimate along with an additional estimate from the contractor on site as a check number, to Mr. Cruse. These estimates will give the owner a dollar amount so that a decision may be made very soon.

The subject of water pressure in a few of the buildings was discussed. It was discovered that a lot of the valves needed replacement as the water supply is turned off to work on the buildings and the water company is slow in making
these replacements.

Mr. Craig Van Baal informed CDC that they (DCA) will do no more reinspections until all repairs are complete. Ms. Provenzano was complimented on her cooperation concerning this.

The next meeting was scheduled for Monday, May 15, 1989.

The meeting was rescheduled for Tuesday, May 16, 1989 at 10:00 A.M.
On May 16, 1989, a meeting was held in the Municipal Building of the Township of Upper Deerfield at 10:00 A.M. between the Township of Upper Deerfield and CDC Financial Corporation.

Township members were: Bruce Peterson, Mayor and Edward Fleetwood, Housing Officer.

CDC members were: George Baker and Carole Barnes.

CFM Development Corporation were: Victor Cruz and Seth Shepard IV.

This is the 11th meeting between Upper Deerfield Township and CDC concerning the Countryside Village project.

Mr. Fleetwood, Housing Officer of Upper Deerfield Township began by reminding members of CDC and DHU about the Small Cities Grant public meeting on June 22, 1989 to be held at the Municipal Building. This meeting will refer to the highways, curbing and sidewalks.

George Baker of CDC stated that a meeting will have to be arranged to discuss details needed for the second application. Proof of the present population’s income status will have to be submitted, along with a right-of-way map which is being prepared by Paul Stuber of Stuber Engineering, and two to three-page report detailing the scope of the rehab work presently being done.

Mr. Fleetwood had questions about the roofing work to be done on the low-pitched roofs. A section was to be cut out and evaluated to make a determination as to what would be needed to re-roof these roofs. A new scope of work has been submitted, as stated by Mr. Seth She pard IV.

A brief discussion was held in reference to the meeting held in the Municipal Bldg. which included Bruce Peterson, Mayor and Edward Fleetwood, Housing Officer of Upper Deerfield Township. George Baker and Violet Dowd of CDC Management Corp., Goldie Walder of the Retired Senior Volunteer Program of Cumberland County, Reyko Carli of the Office on Aging and Ms. Laura Gooby representing Senior Citizens in the Countryside Village Project. This meeting was in concern to the relocation of Senior Citizens and their concerns regarding the safety of their possessions during moving, eligibility, priority, length of time for the temporary relocation, and what would be permissible when moved back into their original apartments.

Mr. Fleetwood suggested a meeting being held in the Municipal Building for the Seniors so they could voice their concerns to CDC and the Township. Ms. Barnes stated she had no problem with that, but was skeptical as to getting a substantial response to that, as Ms. Dowd has been meeting with them on a one-on-one basis with interpreters.

Mr. Fleetwood then brought up the subject of the undersize rooms in the buildings 4 & 5. Drawings were submitted showing relocation of the walls in order to meet the size requirements of the Township Housing Code.
Ms. Barnes stated that the State Police has been working well with CDC as far as patrolling the area and making arrests connected with alleged harassors, loiterers, etc. within the complex.

Mr. Victor Cruz will be preparing a list of items he would like to discuss with the Township's Fathers as well as the Township's Code Officials in order to seek some type of relief so that the project may be expedited. A meeting will be scheduled.

Ms. Barnes is hoping to announce the name change and details of the direct deposit for Seniors by June 1, 1989.

Apartment numbers are all going to be stenciled on wood under the mailboxes.

The next meeting is scheduled for
Mr. LANTOS. Thank you very much, Mayor Peterson. You made reference to a letter to you by your predecessor, Mayor Gregory Facemyer, and without objection, the Chair will place the letter in the record.

[The letter follows:]
June 15, 1989

Mayor Bruce Peterson
Upper Deerfield Township
Route 77
Seabrook, N.J. 08302

Re: Seabrook Village Rehabilitation

Dear Bruce:

In accordance with your request, I would like to summarize my position concerning the above-referenced project.

During 1987, I was Mayor of Upper Deerfield Township. Both you and I attended various meetings concerning the rehabilitation of the Seabrook Village. We expressed numerous concerns about the project and felt that many items discussed were not in the best interests of the township.

Also, during 1987, the township committee introduced and approved the housing code to upgrade minimum housing standards throughout the township which placed an additional set of standards and regulations on this project that would not have existed prior to the passage of the housing ordinance.

To the best of my knowledge, at no time during the project did the township committee, as a governing body or individually, sponsor, endorse, or sanction the approval of the project's sources of funding. The township committee worked in the best interest of the community and, if anything, placed additional requirements on landlords to insure that the minimum housing standards be upgraded.

If you need any further information, please call me. I remain,

Very truly yours,

Gregory J. Facemyer
Certified Public Accountant

GJP/bf
Mr. LANTOS. I want to read a paragraph from former Mayor Facemyer’s letter to you. The letter is addressed to “Dear Bruce,” and it says, among others, “To the best of my knowledge, at no time during the project did the Township Committee as a governing body or individually sponsor, endorse or sanction the approval of the project’s sources of funding.”

Former Mayor Facemyer is a certified public accountant, isn’t that true?

Mr. PETERSON. That is true.

Mr. LANTOS. And his statements to you and his letter to you indicate that he also had no knowledge of this whole project until after it was a done deal?

Mr. PETERSON. Exactly.

Mr. LANTOS. I find your testimony remarkable, so let me just deal with one paragraph of it and sort of walk you through, because it boggles the mind.

In your written statement, under oath, you state the following, Mayor Peterson: “The Township was never consulted by HUD about this project. No one from HUD has ever come to the Township to talk to the governing body about the project or the community’s concerns. To this date”—that means to this date today—“I’m not clear, nor have I ever had the program fully and adequately explained to me.”

And then you talk about your predecessor’s letter, and you go on saying, “He, too, reiterates my sentiments and frustration at being kept in the dark about this project.”

Mr. PETERSON. I just would like to add to that, under our form of government, I was sitting on the committee when Mr. Facemyer was mayor; so there was a continuity there, and I was there during that time.

Mr. LANTOS. Neither of you had a clue that this project was in the works?

Mr. PETERSON. Not until late in the summer of 1987, just prior to the actual purchase.

Mr. LANTOS. By which time, according to your written statement, it was a fait accompli, it was a done deal.

Mr. PETERSON. That was our understanding, yes.

Mr. LANTOS. So by the time you found out about it, everything was settled?

Mr. PETERSON. It seemed to be, yes.

Mr. LANTOS. You state in your testimony:

The township has never known what its powers or control over such a project encompassed. This is very upsetting when considering the amount of moneys involved and the impact of such a project on the community and its residents.

Local public officials honestly understood this was a federal project operating through private interests and was beyond their involvement and control.

This is your testimony.

So, what you are saying is that you as mayor and your predecessor as mayor and your fellow city councilmen found out about a project involving your own community, a project which would have a major impact on your community, only after everything had been settled? And to this date, you are really not sure how the project works, HUD never explained it to you, and HUD never asked you initially, do you want it?
Mr. Peterson. No.

Mr. Lantos. Did anybody from HUD come out to Upper Deerfield prior to your finding out about the project being a done deal?

Mr. Peterson. To our knowledge, no one has been to the project from HUD. Definitely no one has approached any of our township officials with discussions of this project or had previously at any time.

Mr. Lantos. Do you know—Mayor Peterson, or maybe I will summarize it for you and ask you to comment. This kind of a project is to operate basically in the following fashion: You, as mayor, or your predecessor as mayor—after considerable discussion within the community, looking at all facets of what future impact this will have on all aspects of community life—you would have had to apply to HUD and asked for so many units, and then HUD competitively should have awarded this to you on the basis of the merits of the project.

And then you would have had to advertise, and anybody could have applied. This is the way it was supposed to have worked. But you were completely cut out of this process?

Mr. Peterson. Yes.

Mr. Lantos. You were completely cut out of this process. To the best of your knowledge, has Mr. Manafort ever visited Seabrook Apartments?

Mr. Peterson. Not to our knowledge. Until I started getting calls from several major newspapers, I was unaware of Mr. Manafort and had never heard of him before. He has never attended any meetings we had.

We have minutes on our meetings with the owners, and we were unaware of a gentleman by that name.

Mr. Lantos. Until the media broke the story?

Mr. Peterson. Until recently, right.

Mr. Lantos. Now you stated that by the first time you were told about this project, it was a done deal. At any time prior to becoming aware of it, had you been advised or consulted by either Seabrook Associates, the HUD regional office, or the HUD headquarters office to determine the needs of Upper Deerfield in terms of having such a project?

Mr. Peterson. Never anything from HUD at all.

Mr. Lantos. How about Seabrook Associates?

Mr. Peterson. Seabrook Associates approached us at the end of August, 1987—I believe it was August 27th—at a meeting. They were concerned we were adopting this BOCA Code. The only issue that was discussed was whether this code we were adopting was targeted directly at them, and on September 3, 1987 David Bearer attended a meeting when we were adopting it.

Mr. Lantos. Who is David Bearer?

Mr. Peterson. David Bearer was a representative of CDC. He said he'd have no problem meeting the requirements of our code. They were the only discussions we had had with the owner up until purchase.

Mr. Lantos. By that time the project had been basically approved?

Mr. Peterson. That was our understanding.
Mr. Lantos. And you felt that you had no input in whether this project would be undertaken or not?

Mr. Peterson. No. In fact we had a meeting after that and submitted a wish list. Most of those issues still have not ever been addressed with the owners.

Mr. Lantos. Now the media has quoted some officials in your town basically saying that they were not very happy with the project. They would have preferred to have these units torn down. They were in such bad shape, and perhaps for the same cost that it cost to rehabilitate these, they could have built new ones. What is your view of this?

Mr. Peterson. In our market area I would say that is true.

Mr. Lantos. That is true?

Mr. Peterson. Yes. To the first part, yes. I think we would have preferred to see the majority of the units torn down they were in such terrible shape. The only section that came anywhere near meeting decent housing was the section that the seniors for the most were living in. That was mainly due to their own efforts to maintain their units over the 40 years they had been in them. Again the units were built as temporary housing. It just recently came to my attention that there was originally a commitment to the Federal Government at the end of World War II that they would just be torn down by the end of 10 years since the Federal Government had built them. A lot of materials were not good construction materials that went into them and were built strictly as temporary housing.

Mr. Lantos. Do you have any idea why the developers failed to contact you in any way before they received HUD approval for the project?

Mr. Peterson. I have no idea.

Mr. Lantos. Congressman Lukens.

Mr. Lukens. Thank you, Mr. Chairman.

I would like to go back over a couple of things, Mayor, so that I understand the course and the process of this project.

I am astounded by the fact that apparently the project developer, or owner, never really spoke to the local authorities either, is that correct? Basically they never consulted with you?

Mr. Peterson. In August 1987 we had our first meetings. When the actual transfer of ownership of the property was, I don’t know. I don’t know exactly when HUD funds were approved. So I may not be answering your question.

Mr. Lukens. Essentially, it was not until after the HUD money which had been approved to guarantee the loan, basically guaranteed the loans which basically guaranteed the project, and the project did the city meet with the developers?

Mr. Peterson. That is our understanding.

Mr. Lukens. In all fairness to HUD, although I find it interesting, if not a little distressing that they did not take any interest in the project, did you or your staff contact any representative of HUD, asking them to explain the program to your council?

Mr. Peterson. No, we were told a few months into that project—I believe the spring of 1988—that the Department of Community Affairs was administering the funds. That is the New Jersey Department of Community Affairs. To this date I still have not gotten
a clear picture from them exactly how these funds are to be administered either. But they have been apparently the handler of the funds for HUD on this project.

Mr. Lukens. Part of your frustration, from what I gather from your testimony, is the lack of coordination, advance information, or consultation with the local authorities. Is that correct?

Mr. Peterson. Yes.

Mr. Lukens. Let me ask some pleasant questions now, something positive, I hope. Is the project being well run now as far as you are concerned?

Mr. Peterson. The rehabilitation units are substantially improved. They are a very livable unit. Our problem is that there is many—because it was not designed as an apartment complex to begin with, the site does not lend itself well at all to the units. There is no parking facilities and there is things that the owners at this point say they don't have money to address the issue. They have to be certified by engineers that they are not in imminent danger of collapse. There are many issues still to be addressed with the site.

Mr. Lukens. Political considerations aside, would the project have been worthy of consideration for rehabilitation by the town's council if you had money come in through an independent project?

Mr. Peterson. Not in that scale. You have to understand this amounts to 16% of the housing stock, and there is a somewhat limited need within the community.

Mr. Lukens. Let me rephrase the question. If an outsider came in seeking rehabilitation of the project, was this a project your council would likely have approved?

Mr. Peterson. If it was a choice of staying exactly as is and a choice of having it demolished, we would have some work done.

Mr. Lukens. If this were to be closed down would there be any place where tenants could or would go?

Mr. Peterson. If the entire project was closed down there would be problems.

Mr. Lukens. Are there any other major projects in your community or the surrounding area that would fulfill this need?

Mr. Peterson. Yes. The city closest to us, Brooks, NJ, has the highest per capital number of Federal subsidized units in New Jersey.

Mr. Lukens. Based on that response, other questions immediately come to mind. Could the tenants meet the rent without the subsidy? They obviously could not.

Mr. Peterson. No, a lot of working people living there had been moving out. As we get into the senior section now, some of the seniors that have a pension or savings cannot meet these rent requirements, and we will have to force them to move out of units they have been living in since the end of World War II.

Mr. Lukens. Therefore, some kind of well run subsidy program is necessary in your area and you would welcome it?

Mr. Peterson. To a certain degree. Nothing on this scale.

Mr. Lukens. You would prefer not to have such a grandiose project?

Mr. Peterson. No. With this project had it been rehabilitated, it would have been best to eliminate some. It is too dense.
Mr. Lukens. Now that rehabilitation of the project is underway, are you satisfied with the progress of this project?

Mr. Peterson. On some issues we are satisfied.

Mr. Lukens. Would you expand on that comment?

Mr. Peterson. Improvements in the interior of units is very satisfactory, but I would have to give the credit to my code officials for that, because it would not have been addressed properly if we did not have strict code enforcement on this project.

Mr. Lukens. May I ask you in this case, once this project had been slowed down by the imposition and the justified regulation of local housing codes, has the coordination and the cooperation been satisfactory with local authorities since that time?

Mr. Peterson. Not completely, no.

Mr. Lukens. Would you expand on that please?

Mr. Peterson. Dave, do you want to address some of that?

Mr. Fleetwood. To expand on that, Mr. Lukens, it seems like every few weeks there have been problems with the reconstruction and rehabilitation of these apartments. We are going into buildings that are 40 years old or better. Naturally, we are coming cross some of these buildings with problems regarding the roofs. The roofs have truss roofing construction with two layers of ½-inch gypsum board and multiple layers of roofing shingles. Many of these roofs have sags and bellies in them. We are addressing these problems throughout the project.

Mr. Lukens. Would you say these are normal problems faced by any housing development on the basis of your experience with housing?

Mr. Fleetwood. I would not say it is normal, because I don’t think the original construction was normal.

Mr. Lukens. Are they normally given the original construction?

Mr. Fleetwood. I think strides are coming along in this area of rehabilitation project. What is coming about now is to the best of our ability; the owners and the code officials are trying to meet some code standards regarding the roofs in the project.

Mr. Lukens. Aside from the political acquisition of the projects funding, is the project being well run now?

Mr. Fleetwood. I think gradually we have come to that point where there is good communication between the owners and the township, and we are making better strides now in the workmanship and the rehabilitation type of work being done, yes.

Mr. Lukens. So, on the part of the community, there is an effort to make a permanent contribution to better the community.

Mr. Fleetwood. I think there now is, yes.

Mr. Lukens. Thank you, Mr. Chairman.

Mr. Lantos. Congressman Frank.

Mr. Frank. You actually did what people say they will do, and do not—you summarized your statement. You read it, giving us the salient points. That may seem easy to you, but you would be surprised how many people cannot resist adding to the statement as they read it. Maybe you should give lessons to people on how not to waste our time. It was a very useful statement.

As I understand it, the applicant in this case was the State of New Jersey, correct?

Mr. Peterson. Yes.
Mr. Frank. You never heard from the State of New Jersey. The State Department of Community Affairs, that is gubernatorial?

Mr. Peterson. It is our Government Operation.

Mr. Frank. The head of it would be appointed by the Governor, Mr. Fleetwood?

Mr. Fleetwood. I don't know.

Mr. Frank. Maybe Mrs. Roukema knows.

Mrs. Roukema. Are you speaking now of the State Department of Community Affairs? That is a gubernatorial appointee.

Mr. Frank. So what happened here is because you don't have a local housing authority, the public housing authority in this case was the State of New Jersey appointed by the Governor. Apparently, as far as you know, let me say, you first heard about this when in 1987?

Mr. Peterson. Summer of 1987.

Mr. Frank. Do you know which month?

Mr. Peterson. July or August we started hearing rumors about it.

Mr. Frank. You heard about it from the developer?

Mr. Peterson. The developer first approached us the end of August 1987.

Mr. Frank. When did you first hear about the project? Who first called you up?

Mr. Peterson. Just rumors all around the township. I really could not nail it down to a person.

Mr. Frank. Was it a State official?

Mr. Peterson. I am not sure.

Mr. Frank. I don't see any documentation. You seem to be quite careful in preserving documentation. Did you get any notice from the State of New Jersey before this application went in? Did they ask your advice on whether or not it was a good project?

Mr. Peterson. No.

Mr. Frank. By you, I mean the whole township. Did they notify you when the application was approved?

Mr. Peterson. No.

Mr. Frank. Did you ever get formal notification for the State of New Jersey?

Mr. Peterson. No.

Mr. Frank. So your contacts were basically with the developer?

Mr. Peterson. Initially, yes.

Mr. Frank. You had some problems with the developer. I know this from minutes of meetings you have submitted. There was reference that the township was not charging for second and third inspections. I assume this meant you were bearing this out of our tax burden. There were problems with relocation. Did the State intervene to help you get the developer to perform better?

Mr. Peterson. Yes, they did.

Mr. Frank. They were at those meetings?

Mr. Peterson. They have helped, yes.

Mr. Frank. But the fundamental issue is that the State applied, nobody asked you, you heard about it from the developer.

Now there is some reference here to relocation. What problems did you have with relocation? What degree of relocation has been involved here?
Mr. Peterson. Every unit that has a tenant, due to the scope of work, the tenant has to be moved into another unit while their unit is being redone.

Mr. Frank. Because of the empty units they were able to do that. They were all moved around the complex?

Mr. Peterson. Yes.

Mr. Frank. How much money are we talking about here, per unit?

Mr. Peterson. For rehabilitation?

Mr. Frank. Yes. How many inhabited units were there before they started?

Mr. Peterson. We are not sure. We were just getting a handle on it. We never had any code. It all happened simultaneously. It was about 20 percent abandoned at that time. Many of the units were boarded up.

Mr. Frank. So we don’t know about the per unit cost?

Mr. Peterson. I think we can point to that, the estimates for the building permits are $15,000 per unit for rehabilitation.

Mr. Frank. Is that total?

Mr. Peterson. Up to this point. Other things will have to be done later.

Mr. Frank. You noted in your statement that the rents are fairly high for the area?

Mr. Peterson. Yes, they are.

Mr. Frank. This is part of the problem with the residents. The residents who were there before were unsubsidized, they were not wealthy people on the whole?

Mr. Peterson. No.

Mr. Frank. Your concern is that some of these people are going to fall between two stools. With the new rents, as I understand your statement, the current residents, many of them will neither be able to afford that out of their own income, nor will they be so low in their income that they can get Section 8 assistance. Is that right?

Mr. Peterson. Exactly. They will fall through the cracks.

Mr. Frank. So, as a result of this project being given as a gift to your township, some of the people who have lived there for a long time will have to move out?

Mr. Peterson. Exactly.

Mr. Frank. Do you have any idea how many?

Mr. Peterson. No, we don’t.

Mr. Frank. Have you raised this with the developers?

Mr. Peterson. We have had discussions about it. All of them fall under what they say are the rent levels they claim they will need.

Mr. Frank. They are considerably higher you say than nearby comparable residences, according to the appraisal you submitted. So you will have a certain number of the residents who have to be moved out and won’t be able to stay where they have been staying. Has there been a lot of turnover in these buildings before?

Mr. Peterson. Prior to this?

Mr. Frank. Yes.

Mr. Peterson. With the seniors there was almost no turnover. Mr. Frank. Will some of them be dislocated?
Mr. Peterson. Some of them will be dislocated, yes. I know of one gentleman who has been there 40 years who will have to move out.

Mr. Frank. So people who have been there for a long time—this is an outrageous example of what happens when you don't ask local people. I have to say, serving on the Housing Subcommittee, the notion that developers would go to a State and with no discussion whatsoever with the local officials or residents, do a project of this magnitude, is appalling. You were first contacted by the developers. As I read the documents we have here, the State was also first contacted by the developers. I guess we will get to that later on. I would be interested if you would submit to us an estimate of how many people will have to be relocated, because I must say I don't know of any Federal program that would be available to help those victims, so we have an outrageous situation, where the Federal Government is going to have gone in there, spent a large amount of taxpayers' money, the consequence of which will be that some older people who have lived in a place a long time will be kicked out of their home, and nobody in the Government will lift a finger to help them. That is a direct consequence.

Those are kinds of programs we are trying to address in the Housing Committee.

Mr. Lantos. Will my colleague yield? I not only fully agree with your analysis, but all of this will be at an additional cost of $31,163,400 in rent subsidies to the project. The Federal Government not only provides funding to rehabilitate these units that presumably should have been torn down, but it will pay over the next number of years over $31 million in rent subsidies, while the elderly, low income people living there will be forced out.

Mr. Frank. I appreciate that. When I asked about the rehabilitation costs, they are only a part of this. I would like to find this out and we will have to ask HUD. The administration of HUD which forced this project on this community against its will, is also the administration that tells us that vouchers are the solution to our housing program. I would like to know what the disparity is between what you would be able to get in Federal subsidy if you had a voucher and what you would be able to get in this project?

I will tell you it is in the millions of dollars. It exposes a glaring hypocrisy. For people to say, if you happen to be in need of housing in general, we will give you a voucher, but if you happen to be politically well-connected, we will put a lot more money than the voucher in there and we will even dislocate some people into the bargain. In other words, this is my final question, millions of dollars for rehabilitation, millions for the subsidy—if you had been offered a choice between the amount of rent subsidies and the amount of rehabilitation, which appears to be close to $40 million over a reasonable period, or one-half of that, to improve your housing stock according to your choices, which would you have taken?

Mr. Peterson. I would have taken the half.

Mr. Frank. So in other words the Federal Government, if they had been given half as much money you could have produced better result for the people of your community if it had not been what seems to be political connections bypassing totally the local government.
Mr. Peterson. Yes.
Mr. Frank. Thank you.

Mr. Lantos. Congressman Kyl.

Mr. Kyl. I think a lot of these questions point up to deficiencies in the program itself, in addition to the administration of it. I think we have to consider making recommendations to the Secretary on improvements that could have been made in the program.

For example, it does seem to make common sense that before the Federal Government would apply a large sum of money to a community there would be some kind of evaluation of whether the community needed the money, and how it could be best spent. It seems that that process should have been done here. At least from the testimony we have so far, it did not occur.

It also suggests that there may be a better way to solve these problems than through a housing rehabilitation program. For example, I find it hard to understand if this housing was in fact substandard. I guess I should ask you, would you characterize it as substandard housing before it was rehabilitated?

Mr. Peterson. Substantially substandard.

Mr. Frank. When we talk about kicking older people out of their homes and they are substandard to begin with, this is an unavoidable consequence of trying to improve their condition. I am not sure of how we do that without asking them to put up with the fuss of putting up with the contractors working there while they are living there. There has to be some process to help these people out, doesn't there?

Mr. Peterson. Yes, but the senior units, although some of them need serious work, they were not in near as bad a condition as the rest of the project. They did not require that much work. One thing that would have helped us greatly, if the entire project had not been put under rent subsidy, if a certain percentage had been set aside for regular rents, we might not have had this problem with people being displaced.

Mr. Frank. Will you yield? I was not talking about people being temporarily displaced. My understanding was the some would be permanently forced to move out because they will either have enough money to pay market rates or so little money as to get Section 8. Some people will be permanently displaced, as I understand it, not temporarily.

Mr. Kyl. If that is the fact, then it points up another deficiency in the program as a whole.

Mrs. Roukema. Would the gentleman yield?

I am not by any means justifying the dislocation of these people under these circumstances. I completely agree with Congressman Frank's general analysis, but as a matter of record, we should know that under the law, there is a relocation procedure that, under the law, specifically applies in cases such as this, the uniform relocation assistance and real property acquisition politics.

In this kind of a circumstance, where a PHA or a State agency has taken over a project where there is dislocation, HUD has the obligation to relocate. How well that works is another question.

Mr. Frank. With any subsidy, because I didn’t think they got any money for it.
Mrs. Roukema. I'm not justifying the situation. I'm simply saying that whether or not in this particular area, which is quite rural, I believe there is a severe housing shortage in terms of low-income housing, how that would work in this situation I am not certain, but there is theoretically in the law a requirement for HUD to involve itself in relocation.

Mr. Schumer. Would the gentlelady yield? I would take issue with one thing the gentleman from Arizona said. It is not the fault of the program. As the gentlelady from New Jersey has pointed out, there is a relocation program, but when you plop down 326 units in a semi-rural area without consulting any of the local officials, there is no way in God's name you are going to be able to relocate these people, because there is so little housing in the area.

If you did this in Newark or New York City, you would have less of a problem.

Mr. Kyhl. Let me reclaim my time here. We have established that the housing was substandard. I assume by that that everyone was interested in having the situation ameliorated. I don't know how you do that unless you (a) tear the units down, in which case the people will have to go someplace and fend for themselves, or (b) try to moderate the situation in some way.

We've had the suggestion from the mayor that a better way to do it would not be to rehab the entire project, but to have a partial rehabilitation. I'd like to get into that line of questioning next, if I may.

Mr. Schumer. The point is that if you were building 20 or 30 units in this area, you would have a much different situation than 326, and you might be able to deal with it. I would argue, it seems from the evidence we have heard so far, the reason they choose 326 units in the middle of nowhere was not because of a decision made on merits, but on the politics. Don't blame the program for the situation.

Mr. Kyhl. I do blame the program in part, and the administration in part. I assume the mayor would not agree with the characterization that this is out in the middle of nowhere. You agree there was a need for housing, correct?

Mr. Peterson. To a certain degree, but when we're talking about need, and when we're talking about the community, I think it's also important to understand that as this rehabilitation has gone along, the developers have had a problem getting enough tenants to fill the units and have begun to advertise in the newspapers outside the County.

*Atlantic City Press* is one of the papers that has been, or will soon be advertising, which is about 50 miles from us. So, I don't know that there is really a need for the number of units being rehabilitated in our township.

Mr. Kyhl. I guess you are saying that in your community there is not a need for this many units.

Mr. Peterson. Not at all, in our community.

Mr. Kyhl. So what I said was correct?

Mr. Peterson. Yes.

Mr. Kyhl. There was a need prior to this project for something to be done. I am a little unclear what you think should have been done. Will you tell me what you think should have been done?
Mr. Peterson. We would like to have seen a majority of the units eliminated and what was left to be rehabilitated. I think we were going to address a lot of that through the housing code and enforcement on whoever the owner happened to be.

Mr. Kyl. Had the town council or any other responsible officials taken steps to address the need for housing in the community prior to the time you were informed about this project?

Mr. Peterson. Not that I am aware of, no. I had only been on the committee one year at that point. There had been nothing done to bring units up to grade. That was the intent of this, to make sure we had—

Mr. Kyl. When you were advised by the developer, did anybody that you know of representing the town contact HUD, or later the New Jersey officials in charge of dispensing the money, to indicate you had a different view of what would be appropriate?

Mr. Peterson. That would show up on some of the meetings we had with both the developer and the Department of Community Affairs.

Mr. Kyl. Did you tell the Department of Community Affairs that this was a misguided proposition, that some should be torn down and others rehabilitated? And their response was what?

Mr. Lantos. Your testimony was yes? We couldn't hear you.

Mr. Peterson. Yes. I said often to them that a lot of these units did not warrant being rehabilitated.

Mr. Kyl. What was their response?

Mr. Peterson. None. There was no response.

Mr. Kyl. Did they say, sorry, it is out of our hands, or the project has already been signed, sealed and delivered, and we cannot do it, or what?

Mr. Fleetwood. Basically, the response that I kept hearing from officials from the Department of Community Affairs was that the contract was already signed for the 326 units, and nothing could be done about that.

Mr. Kyl. Just a final question here. Did you happen to contact your Congressman or some other Federal official to look into it, and see if they could do anything about?

Mr. Peterson. It is rather ironic—we had requested someone from Mr. Hughes' office, in fact John M. Mruz attended one of the meetings on July 13, 1988. He was rather curious that this project was funded. He commented, much like this committee has, that these funds virtually were not available, and he was surprised that it had been funded. We did ask him to sit in for some guidance.

Mrs. Roukema. I did not hear what the mayor said, what was the statement from the representative from Mr. Hughes' office?

Mr. Peterson. Mr. Mruz said he was surprised this project was funded because, to their knowledge, the funds were virtually unavailable.

Mrs. Roukema. Thank you.

Mr. Kyl. I gather that neither he nor you tried to undo the project after you were told it was a done deal?

Mr. Peterson. We had no way to know we could undo a done deal.

Mr. Kyl. Did you ever check to see?

Mr. Peterson. No.
Mr. KYL. Thank you Mr. Chairman.
Mr. LANTOS. Congressman Martinez.
Mr. MARTINEZ. We could beat a dead horse now, because the questions are redundant; do you think it should have been rehabilitated, and the answer is “no” over and over again. Did you express your opposition to the individuals involved, and did they not give you any response? They did not care to indicate, because if they had, they would have had to agree with you that these units weren’t worth rehabing.

My question is: Do you know in the costing-out of this thing, if the land’s cost is included toward the overall price of each unit, because it should be?

Mr. PETERSON. I don’t know how it’s been broken down.
Mr. MARTINEZ. Thank you Mr. Chairman. If you take that into consideration it far exceeds the allowable amount. I don’t know why we don’t require HUD to require land costs to be considered. I don’t know of any real estate project that doesn’t take into consideration land costs. You have to consider that when you set the rents.

That is probably why they are so high. If you take $4.4 million in land costs and $5.15 million of rehabilitation and add it together, you come up to pretty close to $10 million. If you divide that by 326 units, you have over doubled the price of the allowable amount for rehabilitating each unit, which then puts the cost of rents at the rent scale that you have indicated in your testimony, which is really a tremendous subsidy from the Government for people who can’t afford it. The same people these houses were rehabilitated for are not going to be able to participate.

Mr. Chairman, I don’t know what else to say, except that something is really wrong here. As Mrs. Roukema suggested earlier, we ought to take a hard look at this and start putting some things in place in law that would make these things a violation of law. They are not taking into consideration the finite resources we can appropriate for these things to cover the massive need out there.

Thank you.
Mr. LANTOS. Thank you.
Congressman Shays.
Mr. SHAYS. Mr. Peterson, it is very nice to have you here. I feel your testimony is very helpful to us in terms of our next witness. I appreciate your helping me to understand a number of issues.

For my benefit, I just want to go through these three points and make sure we are in agreement. One, your point is that you never had a say in this project, that you questioned whether you even wanted the project in the first place, and that once the project was underway, you had a hard time getting it up to standard?

Mr. PETERSON. Yes, sir.
Mr. SHAYS. In addition, it is clear that it became a very expensive project to HUD. I think it is important, as I view this, that we clearly know that the Mod Rehab Program basically became a program that was extraordinarily expensive.

We ended up spending more and getting less for what we wanted. In this case, it cost $31 million for the 15-year rent subsidy, and there were lost tax revenues, because the project was syndicated and qualified as a low-income housing tax credit.
When we have said consultants have not cost us much money because it was paid out of the profits, you have helped make me focus on the fact that the consultants cost a lot of money because this program should never—it appears—have been accepted because of its cost. You never wanted it. It happened. It happened because it was developer-driven and it was not town-driven. You concur with that, don't you?

Mr. Peterson. Yes. Could I make a comment? We have in this process tried to get other work done to the units, insulating them, decent doors and windows. One of the greatest reasons those issues have not been able to be addressed, according to the developer, is that he does not have the funds to do that with.

It brings the question to my mind, when I found out that the consultant received $326,000, that money could be put back into the project and we could have some substantial improvements on issues brought up in the beginning of the project.

Mr. Shays. Even beyond that $326,000, the fact was that HUD had to put so much money into this project and had to provide such a significant subsidy because the project was far more expensive than a lot of other more worthy projects.

Mr. Weiss said, there he is fighting to protect certain funded projects he thought had merit, but the problem was he was not the developer. I appreciate your testimony, and I am grateful you were here. Thank you.

Mr. Peterson. Thank you.
Mr. Lantos. Congressman Weiss.
Mr. Weiss. Thank you, Mr. Chairman.

Before I ask, let me also agree with the characterization of your conduct by all the members of this subcommittee. One of the gratifying things about this subcommittee is that partisanship has not entered into it as far as trying to undermine these hearings.

My comments were addressed to the Reagan administration. Mr. Peterson, let me ask you, in the course of your testimony, you indicated at one point that you felt there was an insufficient amount of money budgeted for rehabilitation work.

You said, "This was most upsetting when considering the project's sale price of $4.4 million." You say at the time the project was assessed at slightly over $2,898,000, and the township ratio was 93:63. What you are saying there is that as far as the township was concerned, the total property was worth maybe somewhere about $3.1 or $3.2 million, but in fact the new purchasers paid $4 million; correct?

Mr. Peterson. Exactly.
Mr. Weiss. How much money was set aside or budgeted for rehabilitation?

Mr. Peterson. We have never seen the books, and we do not know the numbers. We are aware that they are spending, taking permits out to spend $15,000 per unit. What was originally set aside or budgeted, we don't know.

Mr. Weiss. I am referring to your testimony, and I don't have a page number but maybe you can explain what you meant. On page 5, the second paragraph, which says:

In an effort to try to address what the community felt were deficiencies with the units themselves and the project in general, a meeting was held in September 1987,
where the community placed before the new owners, a list of recommended items which should be part of any rehabilitation.

Again the community met with little, if any, success. The project had been defined, its scope of work set, and the funding available determined.

Then you go on to say how upsetting this was, given the overpricing of the property. What led you to believe that the budgeting was insufficient?

Mr. Peterson. Strictly by the developers' comments, that they had so much money to work with, this is what they were going to do. Basically, some things we were able to enforce with our code, but anything we did not have actual powers within the BOCA existing structures code to enforce, we were not able to do anything about.

Mr. Weiss. Were you ever given any explanation why the property sold for so much above what the real worth was?

Mr. Peterson. Only from the information similar to what I heard today at this hearing, that the agreement to purchase and the funding was lined up well prior to purchase. Mr. Lantos mentioned early on, in 1986, this project was funded by—agreed to be funded by HUD and purchase didn't happen until a year later, and I would assume that had great impact on the actual purchase price.

If you were going by that stock, even based on a $2,900,000 to $3,000,000 assessment, I don't know of any property owners in the condition that was in that would have wanted to pay that looking toward the work that would have to be done to bring it up to standards.

Mr. Weiss. What, if anything, was the relationship between buyer and seller of those properties; was there any relationship?

Mr. Peterson. I don't know.

Mr. Weiss. In any event, you indicated that the State never told you about this until it was a done deal and that approximately, according to the public reports, a year had elapsed from the time that the State people were first approached on this project and received authorization to the time that you found out about it, correct?

Mr. Peterson. That appears to be the case, yes.

Mr. Weiss. Subsequently, have you had written communication between yourselves, that is, the township and the State on this project?

Mr. Peterson. We have ongoing meetings with the State, the developer and ourselves, which myself and Mr. Fleetwood are in regular attendance at those meetings.

Mr. Weiss. How about communication or documentation of any kind about your objections or your questioning as to how this happened?

Mr. Peterson. Only as it appears in the minutes of the meetings.

Mr. Weiss. Finally, you indicate that the developer sent letters of the type that they wanted back, indicating that there was no problem as far as code ordinance, statute, or regulation, that there were no violations outstanding.

In your testimony, you say that none of the code officers of the township ever signed any of those forms, ever signed off on those, is that right?
Mr. Peterson. That is my understanding, yes.
Mr. Weiss. Does that apply to any and all of the officials of the
township, code or otherwise?
Mr. Peterson. To the best of my knowledge, yes.
Mr. Weiss. Thank you very much. Thank you.
Mr. Lantos. Congressman Wise of West Virginia.
Mr. Wise. Thank you, Mr. Chairman. Mayor Peterson, in reading
the last page of your statement, I wanted to ask if you would ex-
plain some things. We talked about how much this program will
cost HUD. It also sounds like it is also costing your community
some additional funds, too, isn’t it? What additional expenses do
you see for the community coming out of this project?
Mr. Peterson. The streets are in very bad condition. That is
something the township needs to address. We have to put all new
curbs in. The amount of sidewalks originally on the site were inad-
equate, that had to be addressed, street lighting, sewer lines are
old, they were not constructed of very good material, we have to
rebuild those, manhole covers.
Mr. Wise. Would you have done this work had this project not
gone through?
Mr. Peterson. We would have had to repave the streets anyway.
Some of the other work—if the project were torn down, no, because
ey they serve only this development, this village.
Mr. Wise. I notice in your statement that you are applying for a
small city project block grant, which I recall is a HUD-funded
system. Do you have any indications when you are going to get the
small city block grant?
Mr. Peterson. No, we don’t. The reason we are applying is that
this could reach the end of its life expectancy. What happens now
is the life expectancy of this project has been drastically expanded,
and if we are going to have this existing for a long period of time,
we need the site improvements to make it more livable and worth-
while.
Mr. Wise. You said something to a previous question which start-
tled me. You said you were concerned about things like the quality
of doors and the insulation, correct?
Mr. Peterson. Yes. Our understanding is that under moderate
rehab, they do not have to address insulation standards.
Mr. Wise. So, HUD is funding a project where you may not end
up with adequate doors or insulation, correct?
Mr. Peterson. Yes, which rather surprised me with our concern
about energy today, that that would not be required that they be
make energy-efficient.
Mr. Wise. A third thing you mentioned in your statement is that
you were negotiating with the developer for certain improve-
ments—including what you call non-public issues, such as adequate
parking, lighting, play areas and landscaping. What progress have
you had so far?
Mr. Peterson. We have had a commitment to a seven-year pro-
gram to bring the site up. We have been trying to get that done
more quickly. We don’t know what funds are actually being set
aside to address those issues down the road and what enforcement
we will have to do that on the developer once the project is com-
pleted. It is a major concern of ours.
Mr. Wise. So the quality of life is still an issue to your community?

Mr. Peterson. Yes. There are no defined parking areas. People just squeeze in wherever they can. You are looking at row dormitory buildings that are right alongside each other, parallel to each other.

Mr. Wise. How large is your township?

Mr. Peterson. About 32 square miles.

Mr. Wise. What is the population?

Mr. Peterson. About 7,000. We have 2,000 living units. This constitutes about 16 percent of our housing stock in the township.

Mr. Wise. I want to congratulate you in one way. I was doing some checking and had one of our staff people call our HUD field office in West Virginia. You have a community of 7,000 people, that is 32 square miles. You received 326 units of mod rehab housing, which you didn’t know anything about, and it is questionable about whether you wanted it at all.

In West Virginia, which is a State of slightly less than two million people, we received 75 mod rehab units in 1988. In 1987, we received none. In 1986, I am told that we received none, despite filing applications for them. I don’t know what you are doing. They are dropping out of the sky in some areas, and in others with larger populations and demonstrated need, they are nowhere to be found.

This further bears out the need for this committee’s inquiry. I appreciate you courage for coming forward today because it does take courage.

Mr. Lantos. I want to thank my colleague for those very illuminating comparisons.

Congresswoman Roukema.

Mrs. Roukema. I will resist the temptation to use a little black humor here and say you need a consultant.

Mr. Wise. Apparently a consultant more than a Congressman!

[Laughter.]

Mrs. Roukema [continuing]. Sometimes these statistics can be misleading, and I think the members of the subcommittee and the mayor will understand what I mean by this. It is not condoning improper practices, but you must remember, New Jersey is, if not the most densely populated state, one of the most densely populated states.

Although Cumberland County may not be the heart of that dense population, there have been tremendous population shifts from the densely populated to more rural areas. There is a housing shortage in the State of New Jersey so sometimes the comparative numbers can be misleading.

Mr. Lantos. But not in this instance.

Mrs. Roukema. Not necessarily in this instance. I will try to be brief, Mr. Chairman. A lot of this has been gone over. It has been very effective questioning and testimony, I believe.

I want to ask for clarification on a couple of things. In the first place, I am absolutely confounded that you felt helpless and unable to communicate with the Department of Community Affairs, which, if you remember, Mr. Chairman, is the lead agency and acts as the PHA, public housing authority in this instance, and that, ac-
According to your testimony, you were unable to get any information from them concerning this project.

Isn't that your testimony?

Mr. Peterson. To a certain extent, I would not say that is completely accurate. The Department of Community Affairs has worked very well with us in trying to enforce some of these codes. One thing that helped, as we got into the project, they told us we could hold the owner to our standards. They have backed us with that, and that has helped considerably in addressing these issues, and we have had ongoing meetings with the Department of Community Affairs—

Mrs. Roukema. To you standards—in terms of building and zoning requirements as established under our home rule tradition in New Jersey?

Mr. Peterson. That is correct.

Mrs. Roukema. But my question really is: Have you ever asked the State officials why they did not consult with the township prior to awarding the mod rehab assistance?

Mr. Peterson. We had no reason to know that we were to be consulted. That only came to our attention in recent months through newspaper articles and approaches by the press. We assumed that we would not have a reason to stop a rehab program to create low-income housing or subsidized housing.

Mrs. Roukema. So they never contacted you and you had no knowledge on your own, either the elected town officials or the hired personnel in your township, that there was any connection between the Department of Community Affairs and the approval of the Mod Rehab Program? You had been dealing solely with the owners of the property?

Mr. Peterson. In the very beginning. The department became involved not long after that.

Mrs. Roukema. Are you or any members of the council aware, or did you have any reason to believe, before the issue erupted in the press, that there was any impropriety in any way in the project in the way it was approved for funding, or were your aware at any time that there might have been political influence used in the acquisition of these approvals?

Mr. Peterson. No. We were surprised that this was funded, and it was curious, but we had no knowledge that there was any kind of political influence used or how units were picked or what input any community would have into whether units were done in their area.

Mrs. Roukema. For my own information, and for future legislation concerning the Mod Rehab Program, because I don't think it is a program that should be abandoned, there are certain benefits if properly administered, et cetera, but would you, under New Jersey law, have been able, had you known, to block the project in terms of maintaining a certain standard in terms of building codes or local zoning codes?

Mr. Peterson. I am not sure I quite understand the question.

Mrs. Roukema. Had you known about the project prior to its implementation and its approval by the Department of Community Affairs, in fact you alluded to it in your testimony that you had taken certain actions with respect to the building code, and you
had alarmed the builders and someone came to you and asked, are you trying to block the program? Could you have done so, now with hindsight as you look at the project, could you have done so under State law?

Mr. Peterson. Stopped the project due to our code?

Mrs. Roukema. Based on your owned local zoning and building codes. You have just indicated that this building is substandard, based on your own community's building code standards.

Mr. Peterson. That is possible.

One of the problems was that we were just adopting that code simultaneously with the purchase. One of the problems we ran into was we were just establishing the housing office, and we were just implementing rules to run that office, staffing the office, getting materials. We were trying to catch up with something.

To have something of this magnitude when you are just establishing an office puts you under a lot of pressure to try to get up to grade and find, one, just what your powers are.

Mrs. Roukema. I understand that, and I didn't mean the question to be derogatory to the actions of the local community. I think you have done the best you could under the circumstances. I ask it only because this is a continuing problem that we have in working out housing problems, the relationship between Federal regulations, State, and local community desire for home rule and to maintain their own standards.

I am simply trying to think ahead to ways in which can make other legislation more conforming to the local needs of communities. I think you have answered the question.

Finally, Mr. Chairman, I should state, we have had continuing problems with the question of fair market rentals, which is the way we try to establish what is a fair rental for subsidy purposes.

As the mayor has indicated, and I believe the information he submitted to the subcommittee is accurate and correct, these rentals would seem to be far out of line with the cost of housing.

Mr. Peterson. In our market area.

Mrs. Roukema. Yes, in your market area. It is a continuing problem. Unfortunately, as Mr. Frank has already pointed out, as the mayor has already addressed himself, many of the people who most need the housing at these rates are going to be priced out of it, even with the subsidy. Now that is an egregious problem.

Mr. Peterson. I'd like to mention the comparison that was done there with other apartment complexes in the area where all apartment complexes that were designed to be apartment complexes with all the amenities that go with it, parking and other facilities, where this one isn't. So when you compare market rate and how high these rents are, it is not even really fair to compare it to those projects because it is well below the standards of the other apartment complexes.

Mrs. Roukema. I think the mayor's testimony clearly has indicated that this project has run amok. Thank you.

Mr. Lantos. Thank you.

Mr. Mayor, I have a couple of questions. I have a letter here dated September 7, 1988, to Mr. Robert Joint, New Jersey Financial Agency from Edward Demko, Chief Financial Officer of CDC
which is the developer, asking for additional funding and giving an asbestos problem as the reason.

Let me read this to you:

The need for additional credit allocation is mainly the result of two conditions. First, as we previously reported, asbestos-containing material in the form of pipe insulation was discovered on the project site. While obtaining licensed removal was not a big problem, the side-effects were significant, specifically because asbestos removal cannot be done while tenants occupy units. Entire buildings had to be vacated before construction could commence. The result is a slower completion schedule, etc., etc.

Would existence of asbestos on site not have been an additional reason to abandon the whole project and start fresh without the asbestos problem?

Mr. Peterson. I don’t know.
Mr. Lantos. Mr. Fleetwood, maybe?
Mr. Fleetwood. I don’t believe that alone would be a reason to abandon because I don’t believe there was that much asbestos in each apartment to warrant abandoning the project, just on this one issue. The asbestos was, I believe, contained only in the water pipe system throughout the apartments.
Mr. Lantos. But is added to the other problems. It contributed to the undesirability.
Mr. Fleetwood. Correct. Due to the scope of the work, I don’t see any way the contractors could have gone through and rehabilitated each apartment without moving the families involved due to the amount of work. The families just could not stay in each apartment anyway.
Mr. Peterson. Mr. Lantos, will you give me the date of that letter again?
Mr. Lantos. December 17, 1988.
Mr. Peterson. December 17, 1988. They were aware of the insulation problem well before that. The delay in workmanship was not having adequate supervision, not having adequate staff to do the work, and the fact that the work they were initially dealing with was of such poor quality that we had to force them to do a lot more than they were originally doing and it slowed down.

So, I don’t think that insulation was ever a major issue with the project.

Mr. Fleetwood. I’d like to add, the first construction permits were taken out in November 1987—November 24, 1987—when the first construction permits were taken out on the project.
Mr. Peterson. They were addressing insulation at that time.
Mr. Lantos. I have one other question to ask both of you gentlemen. Before I do, Mr. Peterson, as mayor, and Mr. Fleetwood, as housing officer, I want to express my appreciation to both of you. In a very matter-of-fact, and straightforward and low-key fashion you have given us some remarkable testimony.

Let me ask you now to put on your hat, or hats, not as the mayor of the township and the housing officer of the township, but just as an average American taxpayer. Let me sketch the situation for you as it appears to the chairman:

Rehabilitation funds nationally are enormously scarce and countless communities are clamoring for rehabilitation funds. And while vast numbers of communities across this country, with demonstrat-
ed need and powerful local community support, are clamoring for units, you find yourselves having units foisted upon you that you never asked for, never knew they were coming, and yet suddenly appeared.

The total cost to the taxpayer of this enterprise is about $5,150,000 in rehabilitation costs, $31,163,000 in rent subsidy costs, and over $11 million in tax credits. So, you are talking about a $47 million project in a small rural township in New Jersey that the responsible officers of the community never knew about, never asked for, and have serious reservations about. They have serious reservations for a whole lot of reasons, one is the question of relocation of elderly residents who may have lived in these units for 40 years.

The word “relocation” is an antiseptic word. You are dealing with families or single elderly individuals who may have lived in these units for 30, 35, or 40 years. Suddenly, they find they will have to find housing elsewhere. It is one of the most distressing bits of testimony this committee has ever taken.

So let me ask my question: As taxpayers, stepping out of your role of officials of that community, how do you react to this enterprise Mr. Mayor?

Mr. Peterson. I think it is a horrible waste of taxpayers’ money.

Mr. Lantos. I am sorry.

Mr. Peterson. I think it is a horrible waste of taxpayers’ money. The people in our area are outraged at what this kind of money is being wasted on this project. People who know the project, know the project firsthand, cannot believe this kind of money is to be spent on this project, and I didn’t even know the full ramifications to bring it up to close to $50 million.

We just cannot believe it.

Mr. Lantos. The American taxpayer is going to spend about $47 million on a project that Upper Deerfield Township, NJ, never asked for and didn’t want.

Mr. Fleetwood, what is your reaction as a taxpayer?

Mr. Fleetwood. As a taxpayer, I am completely appalled that this type of action can take place. To me, it is unwarranted that these type of funds can be spent on this type of project. It is just unbelievable.

Mr. Lantos. It is just unbelievable.

Mr. Peterson. We are going to need another $1 million in site improvements to make it a liveable project. If we don’t get the small cities grant, it still won’t be a very viable project.

Mr. Lantos. I want to thank both of you again for your most valuable testimony.

Our next witness will be Mr. Paul Manafort. Before we swear Mr. Manafort, the committee will be in recess for five minutes.

[Recess taken.]

Mr. Lantos. The subcommittee will resume its hearing.

Before swearing in our witness, the Chair wishes to advise that HUD indicates the total cost of the project to the taxpayers is closer to $43 million rather than $47 million.

Our next witness is Mr. Paul Manafort. Mr. Manafort, if you will please stand and raise your right hand.

[Witness sworn.]
Mr. LANTOS. Please be seated.

Mr. Manafort, if you will kindly identify yourself. If you have any prepared statement, that will be placed in the record in its entirety, and you may proceed in any way you choose.

The Chair would also like to note at the outset we appreciate your appearance on a voluntary basis.

STATEMENT OF PAUL MANAFORT, BLACK, MANAFORT, STONE & KELLY

Mr. MANAFORT. Thank you, sir. I appreciate the opportunity to be here today to answer your questions and to try and correct the record a bit and try to give you a perspective on this project and the roles the various parties played.

I don’t have a prepared statement; but yesterday, as I was finalizing my preparation for today, I realized maybe a few items in advance where I can explain to you the ventures that were involved, the roles that people played, might be useful in helping you to phrase your questions.

And then after listening to the mayor’s testimony, I thought I might be able to elaborate a bit on some of his comments so you will be focused on some of the questions you might want to ask.

Mr. LANTOS. Mr. Manafort, you are under no time constraints. Take all the time you wish.

Mr. MANAFORT. Thank you, sir. I appreciate your courtesy.

First of all, let me explain a minute what the joint venture developer is composed of. There are two entities; CFF Development Corporation and CDC Financial. CFM was established about four years ago. It is a development company doing a number of projects. This is the only Section 8 Mod Rehab Program but there are several other projects that it is involved in. The partners in that entity are Victor Cruse who, previous to the company being started, was Deputy Commissioner of Housing for the Department of Housing in the State of Connecticut and had in that job, gained considerable experience in the whole public housing area and in fact, from his standpoint, there was a personal knowledge as well, having lived 14 years in a low-income public housing project.

James Fox was a—prior to this company being started was a developer and very involved in the manufacturing process and brought that type of expertise. And I, although I am a lobbyist and public relations person here in town, had been involved for a number of years in a series of private development as an investor and a participant in packaging projects, and that was the experience that I brought, although I did not attest at that time and do not today claim to be an expert in the project of the subsidized housing program.

Mr. LANTOS. Mr. Manafort could you pull the mike considerably closer? It’s very sensitive.

Mr. MANAFORT. The other part of the joint venture is CDC Financial Co., which was established in 1983. It specializes in equity financing and structuring of projects and up to the point of this project had participated in over 20 syndications of real estate development partnerships and participated as a partner in over 15 projects.
The principal involved here was Arthur Greenblat, who prior to his company being formed was General Counsel of the Connecticut Financing Authority. The experience level of CDC and Mr. Cruse in particular on the Moderate Rehab Program was considerable and was the basis upon which we were able to analyze this project.

The principal roles of these two joint venture partners was not a pure role. There was an overlap of responsibilities, even though each party brought certain expertise to this particular project.

CFM was responsible for the administrative work, was the project coordinator, dealt with the New Jersey Bureau of Housing and dealt with the Department of HUD.

Mr. Cruse was the action officer in that regard, and he was the one who was actively involved on a day-to-day basis on this project given his experience in the area.

CDC did the project structuring, financing, some of the technical work, and they managed the overall construction project. That was their area of expertise.

Again, there was some overlap of responsibilities, but those were the principal roles.

I want to spend a minute and talk about Black, Manafort, Stone & Kelly and the role it played in this particular project. Black, Manafort, Stone & Kelly is a lobbying and public relations firm, founded in 1980. It is a bipartisan firm with partners who are active Democrats and active Republicans. We represent corporations, associations, and international clients in Washington and outside of Washington. Our role in this project was to coordinate the administrative processes, to do the public relations, to deal with HUD and in some instances, to deal with the Bureau of Housing in New Jersey.

Let me explain a minute how Black, Manafort, Stone & Kelly works generally and then specifically on this project, Mr. Chairman. We are a group of professionals, attorneys, public relations personnel, and specialists. For our clients, we use our knowledge and experience of this town or of the issues the clients may come to us on. When we don’t know something, we have the capacity, as an attorney would, to get smart on the issues and be prepared so that from a technical standpoint, we can provide strategy and advice.

We are knowledgeable of Washington, DC; we are knowledgeable of the U.S. Government, the process in which departments and agencies work. We stay current on the issues because it is our responsibility. We try and keep aware of who is for or against issues, what the merit of the issues are, what the politics of the issues are and what the substance of the issues are.

This is true for our client interests but it is also true, frankly, for things that don’t relate to our clients but which is important to have in being active here in Washington.

We also stay current on the institutions, what the priorities of this Congress are, what the priorities of the administration are, the motivations, the objectives, from a policy standpoint as well as from a political standpoint.

And finally, we stay current on the key people in the U.S. Government, both in the Administration and in the Congress, as they relate to the policy interests of our clients, generally speaking.
We use this knowledge, and let me show you how we apply it, and experience to advance our clients’ objectives so that if a client were to come to us, we would put together a client plan which would have an objective, a method of operations, the tactics, the procedures and then we would assign personnel, not necessarily at partnership level, to be actively involved. They then oversee and participate in the implementation of the plan and all the various components that are involved.

If I might digress for one minute, sir, and say that I and my partners are professionals, but we also are active politically in the Democratic and in the Republican Party. We also have what I would call a substantive profile as well. We cannot divorce either the political or substantive profiles from our representations and frankly, we don’t try to.

We cannot let our profiles be a barrier to work in this town or the way we relate in this town, and we don’t believe there is any reason to.

The key is the standards by which we perform. We believe our standards are high. We believe we work openly and within the system.

Mr. LANTOS. Mr. Manafort, since we don’t have a copy of your statement and the recorder is having a tremendously difficult time following at your speed, could you please slow down or distribute copies if you have any copies?

Mr. MANAFORT. I’m sorry. It is in an outline form.

Mr. LANTOS. If I could ask you then to read a bit more slowly.

Mr. FRANK. We don’t like talking fast in this committee.

Mr. MANAFORT. I’ll just try to keep up to your speed Congressman. And we try to give a comprehensive and total effort. We perform in such a way as to never compromise our credibility in this town or our relationships. We deal with our friends, both Democrats and Republicans, in the Congress and the administration, and we deal with professionals and civil servants as the case might demand.

The technical term for what we do and what law firms, associations and professionals groups do is lobbying. For purposes of today, I will admit in a narrow sense some might term it influence peddling.

Let me explain how the joint venture and Black, Manafort, Stone & Kelly worked on this project and how it came into being. Mr. Cruse, as I indicated, has broad experience in a network in the housing area throughout the country, had this project brought to him. He analyzed the project, he determined contrary to some of the comments the mayor has made that a market rate program was not feasible, meaning that a new construction program without subsidy was not feasible for this program.

He also determined that the project already had 100 Section 8 certificates, meaning that HUD had already sanctioned this as a project that was merit worthy. He also determined that there was no new construction program at HUD so that the only program that made sense for this project was the Moderate Rehab Program; and based on some of the HUD regulations on areas that would receive priority treatment, he felt this would merit consideration, one, because HUD as a priority urges deconcentration of public
housing outside of the urban area and two, because the area was short on moderate rehab units and three, because in this particular area, at that time there was a waiting list for this kind of housing of over 200 tenants, a list that has grown in September 1988 to 516 for this particular area.

Then Mr. Cruse met with the New Jersey Department of Community Affairs Bureau of Housing Standards, and one of the points that was made a few minutes ago and during the Mayor's testimony is why wasn't HUD involved?

Frankly, sir, as I understand it, the Bureau of Housing is the HUD representative in programs like this. It is the Bureau instead of HUD that deals with the local communities, and it was involved from the very beginning because that was the first place that Mr. Cruse went to determine whether this project would receive consideration because if the PHA and DCA were not to consider this project merit worthy, it would never have gone anywhere.

Mr. LANTOS. If I may just stop you there for a moment. You are not contradicting the mayor in his statement that there was no contact to the mayor or to his predecessor or to any of the local officials at the township; is that correct?

Mr. MANAFORT. No. What I am saying, sir, the mayor indicated in his written statement and I believe in his comments that nobody from HUD during the beginning phases of the project notified the local township.

And what I am saying, sir, is that it is the responsibility of the Bureau of Housing for DCA, not HUD, to communicate with the local township leadership. They have the responsibility as the coordinator of the program. And they were the first group that we would logically go to to determine if they would deem the project to be merit worthy.

Mr. LANTOS. Mr. Manafort, if I may rephrase it. The mayor testified that no one from HUD or from the New Jersey housing agency communicated with him or with his predecessor or with any other township official until after, as he put it, the project was a fait accompli, a done deal. You are not contradicting that, are you?

Mr. MANAFORT. Well, I may be ultimately, Congressman.

Mr. LANTOS. Well, I am asking you now.

Mr. MANAFORT. It is my understanding that there were a number of contacts prior to when the mayor in his written statement said there were initial contacts. It is my understanding that in the spring and early summer, officials of the Bureau of Housing were dealing with local township officials on the feasibility of the plan itself, which was the basis upon which it could go forward. I don't have those exact—

Mr. LANTOS. What year are you talking about?

Mr. MANAFORT. I am talking about 198—let me look a second.

Mr. LANTOS. This is an extremely important fact, and since you have made a major point of indicating that there was prior consultation, I think it is very important for the subcommittee to pin down what appears to be a discrepancy between your testimony and the mayor's. And since both of you are under oath, I am very anxious for the two testimonies to coincide.

Mr. MANAFORT. And so am I, sir. And it is my understanding that some time—the mayor is talking about August and Septem-
ber, some time in the spring of that same year. Whether it was April, May, June, I am not exactly certain, because I was not principally involved.

Mr. LANTOS. So you have no firsthand knowledge to contradict the mayor's testimony; is that correct?

Mr. MANAFORT. I have no firsthand knowledge, but it has been related to me, sir—

Mr. LANTOS. By whom?

Mr. MANAFORT. By Victor Cruse, who was the project officer on this and was the one up there dealing with the local township. And I think if you would check with the Bureau of Housing, they are the appropriate party; but I am led to believe that in the springtime, there was communication because the feasibility of the plan had to be determined.

Mr. LANTOS. What springtime, what year?

Mr. MANAFORT. I think we are talking about 1986, 1987. 1987, I'm sorry.

Mr. LANTOS. The project by the spring of 1987, Mr. Manafort, had already been approved.

Mr. MANAFORT. But the comments I am relating to, sir, are one, that HUD didn't deal with the local township, and what I am saying is first that it was the department of DCA who had that responsibility, not HUD, and they did communicate with the local officials earlier than the mayor could recall.

Mr. LANTOS. Well, before the project was approved or after the project was approved?

Mr. MANAFORT. In the spring of 1987.

Mr. LANTOS. But that is the critical question.

Mr. MANAFORT. The project wasn't approved until, I believe, around June 1, sir.

Mr. LANTOS. I am sorry?

Mr. MANAFORT. I believe it was June 1.

Mr. LANTOS. No, it was April 24.

Mr. MANAFORT. I don't believe the project had been approved. The program may have been approved prior to then, but I don't believe that the developer had been communicated to before June 1.

Mr. LANTOS. Let me read you the facts, because that may refresh your memory, because we are dealing with a very critical issue now.

Part of the mayor's testimony related to the fact that the local community did not ask for, was not aware of, the project until after it became a done deal. According to the official records that I believe I have, the field office notified the public housing authority on April 24, 1987, the public housing authority advertised on May 18, 1987, only you responded, and the award came on June 1, 1987.

So, the field office notified the PHA of the allocation on April 24. Is it your testimony that the mayor and the local people had been advised of this project earlier?

Mr. MANAFORT. It is my understanding, sir, that prior to the project being awarded on June 1 that there was communication between the public housing authority and the local township. I am not sure who. That is why I could only refer you at this point to the Department of Community Affairs. But they were involved.
And more importantly, I guess, the point, because I am not trying to contradict the mayor, I am just trying to explain that the mayor was under the impression, as I interpreted his conversation, reading his statement, that HUD should be communicating with him. And what I am saying, it is my understanding that the Department of Community Affairs should be communicating with the local townships, and they, in fact, were.

Mr. LANTOS. My reading of the mayor’s testimony isn’t that at all, Mr. Manafort if you will allow me. My reading of the mayor’s testimony is that he and his predecessors and other local officials had no idea that this project was in the works, and by the time they were advised by your organization, which is a private organization, I think the mayor repeatedly testified that his first knowledge came not from a public authority, either HUD or New Jersey, but from the developer.

You were in the room I take it while the mayor testified——

Mr. MANAFORT. I watched his testimony, yes.

Mr. LANTOS. Yes. So this is your recollection, also; is it not?

Mr. MANAFORT. As to what he said.

Mr. LANTOS. That is what he said.

Mr. MANAFORT. That is my understanding.

Mr. LANTOS. So if you are stating that his first communication came from a public housing authority, whether it is New Jersey or HUD, then you are contradicting his testimony, and I am merely trying to pin this down. You are perfectly free to contradict it, but I want to be sure whether you are or you are not.

Mr. MANAFORT. I understand, sir, and I am not trying to be argumentative.

Mr. LANTOS. Nor am I.

Mr. MANAFORT. I know that, and I appreciate the courtesy with which you have provided me this time. I guess what I am referring to in his statement is on page 8——

Mr. LANTOS. Mr. Manafort, let me help you, because I am very, very anxious for all witnesses to receive all conceivable assistance from the Chair, both in terms of rephrasing questions and in terms of obtaining documents as we have promised to do for Ms. Deborah Dean. I am very anxious for all witnesses to be given all assistance so they can accurately testify.

Allow me to give you some facts, and tell me where I am wrong. The application for the 326 units was filed on November 20, 1986. Please check your records to ascertain whether I am correct or not.

Mr. MANAFORT. I don’t have that here in front of me, sir.

Mr. LANTOS. I have a copy of the application, and I am going to send it down to you so you can verify that.

Mr. MANAFORT. Frankly, sir, I trust your judgment.

Mr. LANTOS. Well, my question then is, the application was filed on November 20, 1986—November 20, 1986. Is it your testimony now that a duly authorized public housing entity, whether HUD or the New Jersey unit, communicated with local officials prior to November 20, 1986, when the application was filed involving their community?

Mr. MANAFORT. That—I am not saying that, sir. I cannot say that. I don’t know, but I do know for a fact and what I am saying is that Mr. Cruse met prior to that period of time with the public
housing authority to talk about the program, and he determined based on those conversations that one, there were no units available for that area right there, for New Jersey or that area, at least on the books, but there was an acknowledged need that the project was merit worthy for the following reasons:

One, it was in a rural area, and HUD urged deconcentration of moderate rehab housing units.

Two, the existing units, and this is a very relevant point, were in terrible shape, and the project was below the standards most likely, although no determination has been made, and I believe the mayor said that, was probably below the then current housing standards which were subsequently upgraded.

Three, the housing authority felt that the need was considerable for the area because there was already a waiting list of over 200 and the project was, in habitable units, was already filled. In fact, it is my understanding that the local leadership was concerned with the present owner of the project, that he had not made any upgrades since he had owned it, and I guess looking into the early 1980’s.

And also finally, that because there were certificates in that project already that if units were to be available in that area, this would be, if not the, a leading candidate for consideration because it had already been sanctioned by HUD as meritorious as far as the tenants were concerned.

Mr. LANTOS. Mr. Manafort, may I stop you for a moment?
Mr. MANAFORT. Certainly.
Mr. LANTOS. I would like to read to you a paragraph from the Wall Street Journal dated May 25, 1989. It refers to this project. “Whatever the genesis of the project, it followed an unusual course. In November 1986, a representative of Black, Manafort arranged a meeting with an official of the Division of Housing and Development in the New Jersey Department of Community Affairs. At the meeting, a representative of the project, said, and I am now quoting, “Mr. William Connolly, who is Director of Housing for New Jersey,” your representative, said, this is a quote, “that they had made arrangements in HUD Washington for mod rehab units.”

Continuing the quote, “The funds would be coming out of the Secretary’s Discretionary Fund. If we would apply for the units, they would be approved.”

Let me go through this one more time because this is absolutely critical to what we are dealing with. The Wall Street Journal on May 25, in an article by Edward Pound and Kenneth Bacon, says the following, your representative in November 1986 went to the New Jersey Department of Community Affairs, and your representative told the Director of Housing for New Jersey that your organization has already made arrangements with HUD in Washington for mod rehab units, and the funds would be coming out of the Secretary’s Discretionary Fund. If New Jersey would just apply for the units, they would be approved.

Now, it seems to the Chair that this is precisely the reverse of the process that Congress approved and which is on the books. The process that Congress approved makes for the local housing authority, you could argue whether that should be Deerfield, the township, which has a perfectly competent housing officer, or whether it
should be the New Jersey Housing Authority. One would think that they would consult. One would also presume that the initial request would come from the local community.

This local community seems to be well represented by a mayor and housing officer. These people would say we have a real need here. They would then consult New Jersey. New Jersey would put it in the priority list of all other requests from all other local communities in New Jersey, and on the basis of a priority list, they would make an application to HUD.

In point of fact, and I am asking you whether the Wall Street Journal statement is accurate, we had an exact reverse of the process. Your representative went to the New Jersey Department of Community Affairs, they said we already have the 326 units, why don't you people apply for it, and it is a done deal. You are going to get it.

Is the Wall Street Journal story accurate on this point?

Mr. MANAFORT. That is exactly the next point I want to get into, sir.

Mr. LANTOS. I am asking you if it is accurate.

Mr. MANAFORT. It is partially accurate. I cannot respond to the quotes that I think it was Mr. Connolly made because I was not in that meeting, but I will——

Mr. LANTOS. Let me rephrase it. In what particulars is my paraphrase inaccurate?

Mr. MANAFORT. That is what I want to get into. The point I am trying to make, and I will explain to you, I think, the chronology you wish to have the information on, that's the very next point I have here. The meeting that I was talking about with the local DCA happened first and we determined that the project was feasible.

At that point in time, Mr. Cruse sat with me in Washington, or talked with me, communicated with me, and we determined we would get information on what the process was. And I assigned an associate of my staff to check that out as to what the procedure was in Washington.

We confirmed that there was headquarters authority to assign units to various housing programs.

Mr. LANTOS. You confirmed?

Mr. MANAFORT. In the sense that we found out, we were led to believe at that point in time, the FHA Commissioner had the authority to dispense with——

Mr. LANTOS. Well, of course he had the authority.

Mr. MANAFORT. I did not know that when——

Mr. LANTOS. Let me take you back a bit.

Mr. MANAFORT. I think the next point is what you want to hear, Congressman.

Mr. LANTOS. I will be happy to hear your next point.

Mr. MANAFORT. We determined that Ms. Dean as Chief of Staff was involved in the process, and we then approached her. We made no determination that she had——

Mr. LANTOS. Who approached her?

Mr. MANAFORT. Laurance Gay of my staff, sir, approached her. He was meeting with her on another matter dealing with the city of Camden that we represent here in Washington on general repre-
sentation. He was dealing with her on a HUD matter, and he asked her about the Moderate Rehab Program and indicated that we had a potential project and hopefully a program could be funded.

She asked if the PHA would support the program. We were able to indicate that yes, based on a meeting that we had already had, the PHA would be willing to support the program because it felt the need was there and it felt it fit within HUD's priority.

She then asked Mr. Gay if the PHA had submitted a request for units. Mr. Gay didn't know that and said he would have to get back to her. He ultimately responded to her that they had not, but they would be submitting it because they did approve of the project itself.

We had no understanding, however, I should say, at—

Mr. LANTOS. But they didn't know there was such a thing as a project until your people brought the idea—

Mr. MANAFORT. We were already talking with the PHA. That was the point I was trying to make earlier sir. We went first to the PHA to determine the project feasibility, and once Mr. Cruse determined that it was feasible for all the reasons I mentioned a minute ago, then we went to HUD, and we determined that HUD had the Washington based discretionary authority. And we determined as a part of another meeting that if the PHA would support the project, that the program funding would get consideration.

So, we had already talked with the PHA prior to dealing with Ms. Dean; that is the point I am trying to stress—

Mr. LANTOS. Let me tell you what point I am trying to inquire about. Who brought the existence of the Township of Upper Deerfield, NJ, to the attention of your company? How did that thing happen?

Mr. MANAFORT. You mean the project itself, sir?

Mr. LANTOS. Well, the existence of the township. Maybe you knew about the township. I didn't know about the township until the news stories broke.

Who brought the fact to your attention that there is such a town and there is a dilapidated unit that has 326 apartments in it?

Mr. MANAFORT. The program was brought to Mr. Cruse's attention sir when the project was brought to him sometime in 1986 by a developer who had been looking at the project and chose not to go forward with it. And in a conversation he had with Mr. Cruse, he brought it to his attention.

Then Mr. Cruse did what I indicated to you earlier, sir, he analyzed the site, he looked at the project, he met with the present owner, he did some research, he met with the DCA public housing authority officials, and then we determined the project was feasible under a Mod Rehab Program approach because there is a need, there was over 200 people on the waiting list, they were terribly substandard, and there was no other housing in the area.

Based on that, he then came to me, and we went to HUD to see if this program, based out of Washington, could be funded through the local PHA. And we were told not unless the public housing agency would approve the merit-worthiness of the project.

We had already made that determination in dealing with them as I am led to believe, and so when we went back to the PHA and
told them, and this is, I think, the meeting that is referred to in the Wall Street Journal, when we went back to them after the meeting with Ms. Dean and asked if they would be willing to submit an application, we were told yes, they would. And that is the conversation, I think, that’s quoted in that Journal article.

The application was then submitted for the program.

Mr. LANTOS. Mr. Manafort, what is your current understanding of how such a project should flow from step to step?

I am not asking you what your understanding was maybe two years ago. What is your current understanding, having followed these hearings as I am sure you have?

Mr. MANAFORT. Yes, I have.

Mr. LANTOS. Tell me now what your understanding is, how a mod rehab project should move, where does it originate, where does it go next, where is it approved, how it is—

Mr. MANAFORT. As I understand it, sir, the key point is the public housing authority making a determination that a program should be funded, and there are a variety of instances where sometimes developers have gone to the public housing authority first——

Mr. LANTOS. I am asking you how it is supposed to work, not how it has worked under Mr. Pierce.

Mr. MANAFORT. Not just under Mr. Pierce. It is my understanding it is common practice, and it is my understanding only. I don’t have it from personal experience, although you could refer to this project as personal experience. It is my understanding that developers are constantly dealing with public housing authorities in advance of programs being funded. That is how systems get—programs get into the pipeline.

It is not unusual for a developer to go to a public housing authority and say, we can do this, are you willing—do you support the concept, and can we work together? And, in fact, that practice is what frequently happens.

Then the PHA makes a request to HUD, in this case the HUD central office, and a program gets funded or not. There is no responsibility on the part of HUD central to respond. That I understand is the point of contention your hearings are meant to delve into, and I appreciate that point, but the practice of dealing with PHAs before a program is funded is not unusual, as I understand it, sir.

Mr. LANTOS. Mr. Manafort, may I ask you what your private opinion is, as a citizen, of the responsible officials—the mayor and city council—not having a clue that some developer is planning to see to it that a State public housing authority should apply for units for a project within the confines of that community?

Mr. MANAFORT. Let me just say, sir, in a comment that you made a minute ago, the local township didn’t have a housing authority; otherwise, we would have gone——

Mr. LANTOS. It had a housing officer. It had a mayor.

Mr. MANAFORT. It didn’t have a housing authority, so we couldn’t go and sit—we went to the appropriate housing authority, as we understood it.

Mr. LANTOS. I am asking you a different question, Mr. Manafort.

Mr. MANAFORT. I am getting to that.
Mr. LANTOS. I am asking you a very simple question. I am asking you to address the question I am asking you. I am enormously patient and courteous, but I expect the courtesy of a response to the questions I ask.

Mr. MANAFORT. If in fact we hadn't dealt with the local township, I would think that that would be something at that time might upset the local township.

Mr. LANTOS. I am sorry?

Mr. MANAFORT. If we hadn't dealt with the local township officials, I could understand why they would be upset.

Mr. LANTOS. If——

Mr. MANAFORT. We had not.

Mr. LANTOS. If——

Mr. MANAFORT. We had not.

Mr. LANTOS. Did you deal with them prior to moving on this?

Mr. MANAFORT. It is my understanding, and again, I was not—Victor Cruse of my partnership, sir, and I was not the action—at this phase, I was not involved in it.

Mr. LANTOS. Is it your understanding from Mr. Cruse, whom we will invite to testify, is it your understanding that Mr. Cruse discussed this project with the mayor and the city council and the housing officer of this community before moving on it?

Mr. MANAFORT. I don't know if it was with Mayor Peterson, because I don't remember when he came——

Mr. LANTOS. He had a predecessor, too.

Mr. MANAFORT. It is my understanding——

Mr. LANTOS. Mayor Facemyer has written a letter to us saying he was totally unaware of the project.

Mr. MANAFORT. I want to get you, and I will, the specific dates. This has come up today, so I was not prepared to testify on the specific dates. I will provide for the committee, if you wish, the dates of when——

Mr. LANTOS. We appreciate that.

Mr. MANAFORT [continuing]. I believe those meetings occurred, and you will be able to draw your own conclusions.

But it is my understanding that there were meetings prior to, I believe it was late August the mayor talked about, either between the DCA officials and the local leadership or possibly with Mr. Cruse, as well.

Mr. LANTOS. Just a technical question, Mr. Manafort, because I am very anxious all witnesses have all information available to them. Upon receipt of the mayor’s testimony, we faxed that to your office. Did you receive it?

Mr. MANAFORT. I got that about 7:30 last night, and I did appreciate it.

Mr. LANTOS. Did you read it?

Mr. MANAFORT. I read it last night, but I have not been able to assemble dates in the last 36 hours or 24 hours, but I will get you those dates just as soon as I have the information.

Mr. LANTOS. We appreciate that. Please proceed.

Mr. MANAFORT. And I did appreciate the courtesy of reading the statement last night.

Mr. LANTOS. Sure.
Mr. MANAFORT. From that point forward, excuse me, we had
gotten to the point where we made, we went back to the PHA and
suggested that if they submitted a request that the program could
be funded.

Mr. LANTOS. So the Wall Street Journal story is accurate?
Mr. MANAFORT. To the degree I have testified, yes, sir.
Mr. LANTOS. Well, is it inaccurate in any particular?
Mr. MANAFORT. I don’t remember the whole article, so I
cannot—

Mr. LANTOS. I am merely asking about one paragraph. I will now
read that one paragraph to you again. We are dealing with serious
matters, and I am trying to give you all the opportunity of follow-
ing what I am saying. “Whatever the genesis of the project, it fol-
lowed an unusual course. In November 1986, a representative of
Black, Manafort arranged the meeting with an official of the Divi-
sion of Housing and Development in the New Jersey Department
of Community Affairs. At the meeting, a representative of the
project,” and now I am quoting Mr. William Connolly, said, “that
they had made arrangements,” they meaning you, “had made ar-
rangements in HUD Washington for mod rehab units. The funds
would be coming out of the Secretary’s Discretionary Fund. If we
would apply for the units, they would be approved.”

Is this accurate?

Mr. MANAFORT. I don’t want to be quibbling, but it was the ex-
pectation that the program would be funded there, yes. I was not
party to that conversation, so I cannot say that the quote is exactly
accurate.

But one of the points I think needs to be stressed here is we were
hopeful that the program would be funded, and you might even say
we had expectations it would be funded.

Mr. LANTOS. How high were your expectations?
Mr. MANAFORT. They were not so high that I wasn’t concerned.
Mr. LANTOS. From whom did you obtain indications that the ap-
lication would be approved?

Mr. MANAFORT. The conversations that Mr. Gay had with Ms.
Dean led us to believe that whatever process HUD would take, that
the program, I’ll go so far as to say would be funded, but there was
no guarantee that it was going to be funded. I guess is the quib-
bling—expectation, yes; guarantee, no. That’s all I am saying.

Other than that, without having been a party to that conversa-
tion—

Mr. LANTOS. If you did not have what you felt was a verbal guar-
antee, why did you sign a contract with your development partner
which allowed them to back out of the project if in fact the units
wouldn’t be forthcoming? You had such an agreement.

Mr. MANAFORT. That is the point, it was conditional because
there wasn’t a guarantee. That was exactly the point.

Mr. LANTOS. You gave them an option to back out?
Mr. MANAFORT. Well, they required it, they wanted that option,
and we provided it, but—

Mr. LANTOS. But if you provide that option, that indicates to me
a fairly high degree of confidence that the funding will be forth-
coming.
Mr. MANAFORT. Except we hadn't exercised our option with the owner, either, sir, and it would have happened seriatim. In other words, we had an option on the property. We had not purchased the property at that time, and if the program hadn't been funded, frankly we wouldn't have purchased the property because it didn't make economic sense as a market rate program.

So we had comfort level in providing that to the joint venture partner because if the program didn't get funded, they wouldn't have participated, and we wouldn't have purchased the property. OK?

Mr. LANTOS. Go ahead.

Mr. MANAFORT. Thank you, sir.

From that point forward, Mr. Cruse and Mr. Cartwright of my firm worked very closely together on the project with Mr. Cartwright acting as administrative officer, and it is important to stress, in my judgment, from Black, Manafort, Stone and Kelly's standpoint, we have logged as we estimated over 200, maybe 300 hours on this project and possibly even more, because our role in this project, and this is the point I want to stress at this time, was to coordinate between the CDC elements and the CFM elements of the joint venture and to participate publicly and openly in meetings with the Bureau of Housing, in meetings with the local township, in meetings with HUD as were appropriate.

So we were actively and openly involved attending meetings, and Mr. Cartwright made numerous trips up there; and as I say, we spent over 300 hours on the project, and were still involved in the project and will continue to be involved in the project until the construction is completed and the public relations campaign is terminated.

I guess I should go to one other point, and that is regarding the fee, because the committee has shown some interest in that. Let me say that there was a recognition on my part as the developer that we were going to need consultants not just to do the, as you would call it, program allocation, but also to do some of the considerable administrative work.

Obviously, I have confidence in my own firm and we agreed among the joint venture partners that Black, Manafort, Stone & Kelly could, and should, be actively involved. How did we price that? I think, as you have already heard testimony, the general knowledge is the market prices range from $1,000 to $2,000 per unit, we did peg our work on a per unit basis, but our scope of work, and this is an important distinction, was not to provide this unit and then walk away. Our scope of work was to provide ongoing service.

As I said, we have logged 200 to 300 hours already, and we would be active until the end of the project. The project is not completed. We are still active.

Mr. LANTOS. Your testimony is that the firm logged 300 hours on this project?

Mr. MANAFORT. We can estimate, based on just the number of trips Mr. Cartwright took, a considerable amount of time, and then local meetings as well, and things like that. We were active and are active and will continue to be active openly in the process.

Mr. LANTOS. Accepting that figure—
Mr. MANAFORT. And the other point, sir, is that expenses, because this is a gross fee, expenses incurred, the travel back and forth and things like that, are allocated against the fee, as well. So that I have never estimated what the net sum is, but——

Mr. LANTOS. Was Mr. Cartwright the principal person, Mr. Cruse and Mr. Cartwright?

Mr. MANAFORT. Cruse is a principal in the joint venture. Mr. Cartwright is a professional in Black, Manafort, Stone & Kelly.

Mr. LANTOS. He did most of the work?

Mr. MANAFORT. He has been doing most of the administrative and technical work on the project and has been attending all the meetings, yes.

Mr. LANTOS. Who else was involved from your company?

Mr. MANAFORT. Mr. Gay, as I indicated, was involved and myself. Basically, that was it. There has been some conversation that Mr. Black, a partner of mine, was actively involved in this project, and that is not true.

Mr. LANTOS. Very good. Could I just pursue that a minute? So the three principal individuals involved were you, Mr. Gay, and——

Mr. MANAFORT. Mr. Cartwright.

Mr. LANTOS. And the three of you combined put in about 300 hours?

Mr. MANAFORT. I feel comfortable saying that. It could easily be more.

Mr. LANTOS. And what were the expenses involved?

Mr. MANAFORT. I have not added those up. We can go back and look at that. It's the travel——

Mr. LANTOS. Do you have a ball park figure?

Mr. MANAFORT. I don't know what—travel from Washington to Trenton to Seabrook and back, whatever that would be on a round-trip basis, on a regular basis, is what the basic expenses are. A couple hundred dollars, maybe 20 trips.

Mr. LANTOS. That would be $4,000?

Mr. MANAFORT. Obviously, the time. What I am trying to say is that the fee was for ongoing service, was a gross fee against which all expenses might be applied, including travel expenses and was not simply, because there has been some discussion about this, to produce units to a program. That's the only point I am trying to make. I'm not trying to be——

Mr. LANTOS. But accepting your figures at face value, which I am perfectly happy to do, you are still talking about an hourly consulting fee of over $1,000. That would be an eight-hour day at $8,000 or $9,000. You know, whatever the market brings?

Mr. MANAFORT. If I might put it into perspective, Congressman, if you allocate it over three years, which is what we've been involved in this project, it is about $108,000 on a gross basis.

Mr. LANTOS. You don't allocate it over a period of years, you allocate it over the number of hours you devoted to it?

Mr. MANAFORT. I was about to make a point. If you look at our annual client base, we work on an annual retainer basis with our clients; and frankly, sir, our fees which are annualized are double that, if not more so, for our clients on an average basis. So this falls not just on the lower end of our fees if you allocated it.
Mr. LANTOS. Do I understand that you are billing your clients at over $2,000 an hour?

Mr. MANAFORT. We are billing on a retainer basis a quarter million dollars a year, sir.

Mr. LANTOS. I am not asking you on a per annum basis. We are both intelligent people.

Mr. MANAFORT. That is how we charge, sir.

Mr. LANTOS. Let me explain to you why that is an inappropriate way to charge, if you will allow me. If one client takes ten hours of your time a year and another client takes 10,000 hours of your time a year, you don’t bill them the same amount. No one in his right mind would suggest that you do. You may be billing on an annual basis, but your billing is predicated on an estimate of the number of hours you devote.

Mr. MANAFORT. No, it is not, sir. I am not again trying to be argumentative, but that is not——

Mr. LANTOS. Nor am I. I am just fascinated by your billing procedures. Let’s just deal with this simple project. Allow me to pursue that, because I think we are dealing with a matter of public interest, public responsibility and public trust.

Secretary Jack Kemp blew the whistle on this whole project, stopped all allocations. The Attorney General is investigating all HUD field offices. We have lots of problems here. So let’s not slip over that.

Mr. MANAFORT. I was only trying to put it into perspective, sir. We don’t work on a billable hour basis. We only work on an annual retainer basis, and when you allocate what would have been, since this is a three year program, it over the three years, and we are only about two months behind schedule, based on some things we will get into, in a little while.

So we anticipated a 2½ to three-year program of involvement of Black, Manafort, Stone & Kelly. When you allocate it out, all I’m suggesting is that pursuant to our program, this fee, while it might sound very high, comes out to about $100,000 a year. And according to Washington’s standards, that is not very high, and certainly, according to our billing standards, it is below average for our fees. That is the only point I am making.

Mr. LANTOS. Let me——

Mr. SCHUMER. It is only in low-income housing they charge so little, Mr. Chairman.

Mr. LANTOS. Let me just establish the facts so we’ll understand it. I stipulate that your billings are on a per annum basis, and you are perfectly free to bill any way you choose, as long as the clients are prepared to pay; and they obviously are prepared to pay, so you are obviously rendering services.

In this particular instance, it is your testimony that you and your two associates spent about 300 hours on working this project through; is that correct?

Mr. MANAFORT. That is correct, sir.

Mr. LANTOS. It is your testimony, sir, that you had about $4,000 in transportation expenses, plus presumably additional thousands of dollars of telephone and other expenses.
Mr. MANAFORT. I have never added up the expenses. I don’t want to be—I can try to put that information together, but I don’t know the number.

Mr. LANTOS. There were additional expenses. It is still fair to say that on an hourly basis, you charged a project involving low-cost housing for low-income people at a rate of $1,000 an hour. Is that a logical inference from your testimony?

Mr. MANAFORT. That is a logical inference from my testimony.

Mr. LANTOS. Thank you very much. Please proceed.

Mr. MANAFORT. The only other points I would like to clarify based on some testimony this morning, I think some questions you had and Congressman Frank had one question, how many tenants were displaced. Three were, sir.

Mr. FRANK. Permanently. My question was permanently.

Mr. MANAFORT. There were three tenants who were determined to be ineligible for subsidy and since are still living in the units. They have moved into new units and are paying the market rate.

Mr. FRANK. If the gentleman would yield, since the question was addressed to me, the mayor said it was his understanding some people would be unable to pay the market rate and ineligible for subsidy. You are saying he was wrong.

Mr. MANAFORT. No. What I said was that there were three.

Mr. FRANK. You said they were paying the market rate. You disagree with the mayor?

Mr. MANAFORT. No. Let me back up. I’m sorry if I didn’t say it correctly.

I heard that testimony, so I made a phone call to try and get that number, and I was told that there were three tenants that were tenants when we purchased the property who would not qualify based on the income test for the subsidy, so would have had to move out of the project and been displaced from an income standpoint.

I was also told that those three tenants have chosen to stay in the rehab units and are prepared to pay whatever the rate is——

Mr. FRANK. You are contradicting the mayor. The mayor said there were people to his understanding who were neither able to afford the market rate nor eligible for subsidies. So you are saying the mayor was wrong. I am also surprised you did not, while you were there, ask them who talked to the mayor. You seem to have gotten some of the information on your phone call and not other——

Mr. MANAFORT. I didn’t ask that question.

Mr. FRANK. I understand you did not. I don’t think you wanted to hear the answer. So you are saying the mayor was wrong and no one is going to be permanently displaced.

Mr. MANAFORT. What I am saying is that he ultimately was wrong. He was correct in that there were some tenants who did not qualify for subsidy.

Mr. FRANK. He said some were going to be permanently displaced. If he was wrong, he was wrong.

Mr. MANAFORT. That he was wrong on, as I am led to believe. The number was three. The additional point was that we had to relocate some of the elderly tenants. Originally, in our scope of work, that was not our intention, but as we got into the project we
discovered asbestos. In order to remove, pursuant to appropriate
codes, the asbestos, we had to temporarily relocate those elderly
tenants into some rehabbed units, then we moved them back into,
or are in the process, in some cases, of moving them back into their
old units, so they are going to be where they were living, by and
large, in rehabbed facilities.

One other point of clarification that was raised in the mayor's
testimony, just so that you will understand, I am not sure who
asked the question regarding the letter that is attached on the sub-
standard, on the question of whether the project met housing
standards and what we were trying to do with that. We were in a
catch-22 situation. We acknowledged that the units certainly, in
our judgment, were below standard of the existing code, never
mind the one that would ultimately be adopted, and we were look-
ing forward to purchasing the projects. There was a penalty clause
in the code that said there would be $1,000 a day penalty per unit
for substandard housing, which meant that when we bought the
project, that we acknowledged were substandard, we would be get-
ing penalized $326,000 a day for units that we agreed were cer-
tainly out of sync with the proposed code.

What we were looking for was relief while we were rehabbing
the units that we would not be hit with that penalty. That was the
basis for that communication and correspondence. We were not
trying to get around anything.

We acknowledged up-front that the units need to be rehabbed, so
that was what that whole correspondence was directed toward. It
was a catch-22 situation where we were going to be blamed for
somebody else's sins when we were going to be coming in trying to
clean up the project. I guess that is the end of my opening state-
ment.

Mr. LANTOS. Thank you very much Mr. Manafort. I think we
clarified a few things in these exchanges. I have a few questions,
then I'll turn to Mr. Shays. Was a blind copy of the application
sent to Deborah Dean?

Mr. MANAFORT. Of the public housing application, I believe it
was, yes.

Mr. LANTOS. Whose idea was that?

Mr. MANAFORT. It probably was Miss Dean's idea. I was not privy
to the conversation so I cannot answer that directly but that prob-
ably was to notify people in HUD central that the PHA had made
the formal request.

Mr. LANTOS. Why do you assume it was Miss Deborah Dean who
suggested that a blind copy be sent to her?

Mr. MANAFORT. The only reason I can assume it, and I know I
shouldn't be doing that, is that, because that was who we were
dealing with.

Mr. LANTOS. If you deal with a public official, it is rather unusu-
al for the public official to request that blind copies of correspond-
ence be sent.

Mr. MANAFORT. I don't know why it was blind as opposed to
simply a carbon copy.

Mr. LANTOS. It was a blind copy?

Mr. MANAFORT. That I don't know. And why it was blind as op-
posed to carbon, I don't know. I misunderstood. I should listen
more carefully, I thought you were talking about a carbon copy. I believe you that it was blind. I don't know why it was blind. I assume the basis of my answer as to why she was carboned was as I have testified.

[The information referred to follows:]
November 20, 1986

Mr. Joseph Monticciolo, Regional Administrator
U.S. Department of Housing and Urban Development
26 Federal Plaza
New York, New York 10278-0068

Dear Mr. Monticciolo:

The New Jersey Department of Community Affairs, Division of Housing and Development, hereby applies for 326 units of Section 8 Moderate Rehabilitation Program funding for Cumberland County, New Jersey.

We have enclosed the HUD Form 52515A which includes the required Section 8 Moderate Rehabilitation Program application data.

Thank you for your continued cooperation and help.

Sincerely,

William M. Connolly, AIA
Deputy Director

Purpose: TO A low PHA applicant

bcc: Honorable Samuel Pierce, Secretary
U.S. Department of Housing and Urban Development
Attention: Ms. Debbie Dean

A-13

NEW JERSEY IS AN EQUAL OPPORTUNITY EMPLOYER
Application For
Moderate Rehabilitation

Submit an original and two (2) copies of this application form and attachments.

Number of Applications Submitted at this Time

<table>
<thead>
<tr>
<th>Number</th>
<th>HUD Use Only</th>
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<tbody>
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<td>1</td>
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</table>

Office Name of Public Housing Agency

New Jersey Department of Community Affairs

hereby requests an Annual Contributions Contract to provide housing assistance for __526__ units of
Section 8 Moderate Rehabilitation.

☐ No prior applications for Section 8 Moderate Rehabilitation have been submitted.

☐ Prior application(s) approved, disapproved, or pending

Give ACC Part No. NY-1272-K

Applications/Project Nos. 83-159-K167-007, 006

006, 007, 008, 009, 010

Address of PHA

New Jersey Department of Community Affairs

Bureau of Housing Services

CN 051

Trenton, New Jersey 08625-0051

Signature and Title of PHA Officer Authorized to Sign this Application

William M. Connolly, Deputy/Director

Division of Housing and Development

Phone No.

(609) 530-5371

Date

November 20, 1986

A. Primary Area(s) in Which Units Will Be Rehabilitated

<table>
<thead>
<tr>
<th>Locality (City, Town, etc.)</th>
<th>HAP (Yes or No)</th>
<th>County</th>
<th>Congressional District</th>
<th>Units</th>
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<tr>
<td>Sea Brook, N.J.</td>
<td>Yes</td>
<td>Cumberland</td>
<td>2nd</td>
<td>526</td>
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B. Proposed Assisted Dwelling Units

Number of units by bedroom size should be provided for each Fair Market Rent area. (Attach separate schedule if necessary.)

<table>
<thead>
<tr>
<th>Fair Market Rent (FMR) Areas</th>
<th>Number of Dwelling Units by Bedroom Count</th>
<th>Total Dwelling Units</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Elderly, Handicapped or Disab. Family</td>
<td>Large Family</td>
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<tr>
<td></td>
<td>Efficiency 1-BR 2-BR 3-BR 4-BR 5-BR 6-BR</td>
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</tr>
<tr>
<td>Sea Brook, N.J. (Millville, Bridgeton, Vineland)</td>
<td>45 261 20</td>
<td>326</td>
</tr>
</tbody>
</table>

Previous editions may be used until exhausted.
K. Indicate whether or not permanent displacement will be allowed. (Check appropriate box)

☐ No building will be selected for participation in the Program where permanent displacement of tenants will be necessary.

☒ Displacement of tenants will be allowed and any displacement will be accomplished and benefits provided as required in Section 882436. If the PHA plans to select buildings where displacement will be necessary, the PHA must attach a certification that it will comply with the requirements specified in Section 882406. The PHA must also indicate the agency which will provide relocation assistance, describe how the assistance and payments associated with permanent displacement will be funded, and attach a commitment from the funding agency.

L. Attachments

The following additional items may be submitted either with the application or after application approval, but no later than with the PHA executed ACC. Items 1, 2 and 3 below should be submitted together:

1. Equal Opportunity Housing Plan and Certifications, Form HUD-820.
2. Estimates of Required Annual Contributions, Forms HUD-52071, HUD-52072, and HUD-52673.
3. Administrative Plan.
4. Proposed Schedule of Allowances for Utilities and Other Services, Form HUD-52667, with a justification of the amounts proposed.

<table>
<thead>
<tr>
<th>HUD Field Office Recommendations</th>
<th>Submitted With This Application</th>
<th>To Be Submitted</th>
<th>Previously Submitted</th>
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</thead>
<tbody>
<tr>
<td>Recommend of Appropriate Reviewing Office</td>
<td>Signature and Title</td>
<td>Date</td>
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</tr>
<tr>
<td>Recommendation</td>
<td></td>
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</tbody>
</table>

☐ 1/ 13
G. Housing Quality Standards

Indicate below whether local housing codes, the Housing Quality Standards as set forth in 24 CFR, Sections 882.109 and 882.404 or other Program Examples of other standards to be used would include local rehabilitation codes or variations in the Acceptability Criteria of the Housing Quality Standards. (Check appropriate box).

☐ Use of local housing codes which are more restrictive than the Housing Quality Standards (submit standards and justify that the local housing codes meet the Performance Requirements of the Housing Quality Standards);

☐ Use of Housing Quality Standards contained in Sections 882.109 and 882.404;

☐ Other (submit copy of standards and justify their use).

H. Administrative Capability

Describe the experience of the PHA in administering housing or other programs, including the Section 8 Existing Housing Program, and provide other information which evidences present or potential administrative capability for the proposed Program.

Application development packet submitted with previous application.

Update is available upon request.

I. Rehabilitation Expertise

Describe the rehabilitation expertise and experience of the PHA or how this expertise will be obtained. If the PHA proposes to subcontract with any public or private rehabilitation entity, the name of the subcontractor and a detailed description of the subcontractor's rehabilitation experience should be provided. (A memorandum of intent between the PHA and the subcontractor specifying the obligations of each party to the rehabilitation must be submitted.) The description of rehabilitation expertise should detail the PHA's or subcontractor's experience specifying the type of rehabilitation (e.g., cosmetic, major systems repair or replacement, or substantial to architect, engineer, or inspectors and how much of the work was actually performed by staff). If the PHA proposes to hire staff, the qualifications of the staff should be detailed. The PHA must also demonstrate the capacity to perform the services required in 24 CFR, Sections 882.504, 882.506, and 882.507.

Application development packet submitted with previous application.

Update is available upon request.

J. Financing

Indicate the types of financing expected to be used including Federal, State or locally assisted financing programs and describe the availability of such financing. If available, statements from these financing sources indicating their willingness to finance rehabilitation under this program should be submitted.

Application development packet submitted with previous application.

Update is available upon request.
C. Location of Program

Indicate below whether the program will be targeted to one or more neighborhoods. In addition, indicate any areas which will be excluded from program participation because they do not meet the site and neighborhood standards contained in 24 CFR, Sections 802.100(h) and 802.104(d).

☐ Program will be targeted to one or more neighborhoods. (Attach a map outlining the neighborhood boundaries and indicating major transportation corridors (streets, highways, bus lines, railroad tracks), commercial, recreational and public facilities, and subdivisions.

☐ Program will not be targeted to specific neighborhoods. (PHA must indicate any neighborhoods or areas which will be excluded from program participation because they do not meet the site and neighborhood standards, including an undue concentration of assisted persons in areas containing a high proportion of low-income persons, or because of adverse environmental conditions.)

D. Need for Housing Assistance

Demonstrate that the project requested in this application is consistent with the applicable Housing Assistance Plan, including the goals for meeting the housing needs of Lower Income Families or, in the absence of such a plan, that the proposed project is responsive to the housing stock in the community and the housing assistance needs of Lower Income Families. (Including the elderly, handicapped and disabled, large families and those displaced or to be displaced residing in or expected to reside in the community and that there is or will be available in the area public facilities and services adequate to serve the housing proposed to be assisted.

Application development packet submitted with previous applications. Update is available upon request.

E. Qualification as a Public Housing Agency

Demonstrate that the applicant qualifies as a Public Housing Agency (24 CFR, Section 802.102) and is legally qualified and authorized to carry out the project applied for in this application. If the applicant already has an ACC for a Section 8 Existing Housing or Moderate Rehabilitation Program, the appropriate boxes indicating that relevant documents have been previously submitted should be checked. If the PHA already has an ACC for a Section 8 Existing Housing Project, but is not administering a Moderate Rehabilitation project, a statement from the public housing counsel must be submitted stating that the PHA is qualified to participate based on the documentation previously submitted for the Existing Housing Program. (Check the appropriate box below.)

Submitted With This Application

1. The relevant enabling legislation

2. Any rules and regulations adopted or to be adopted by the agency to govern its operations

3. A supporting opinion from the Public Housing Agency Counsel

F. Rehabilitation and Leasing Schedule

Provide a proposed schedule specifying the number of units to be placed under Agreement and the number of units under MAP Contract by the end of each three-month period within a total period of 24 months from ACC execution (24 CFR, Section 802.502).

<table>
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<tr>
<th>HAP</th>
<th>April 87 = 54</th>
<th>AHAP March 87 = 326</th>
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<td>Aug. 87 = 54</td>
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<td>Nov. 87 = 54</td>
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<td></td>
<td>Feb. 88 = 54</td>
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<td>May 88 = 54</td>
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<tr>
<td></td>
<td>Aug. 88 = 56</td>
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A 1/4
Mr. LANTOS. Did you know Secretary Pierce?
Mr. MANAFORT. No, I did not, sir.
Mr. LANTOS. You had never met him?
Mr. MANAFORT. I may have——
Mr. LANTOS. Okay, not up to that time. But you had no relation-

ship?
Mr. MANAFORT. I have no recollection of ever having met Secre-
tary Pierce, though that is not to say he was not at various func-
tion I was at.
Mr. LANTOS. Yes, of course. What was your relationship with
Miss Dean, how well did you know her?
Mr. MANAFORT. At that time, I would call it a political relation-
ship. I had not done any business with her or had any kind of spe-
cial relationship with her.
Mr. LANTOS. You may want to consult your documents in an-
swering this, Mr. Manafort. How do you explain the fact that on
April 9, 1987, your group entered into an agreement to purchase
Seabrook Apartments? This was at a time after HUD had approved
the application, yet two weeks before the HUD field office notified
the public housing agency that it had been awarded 326 units. Did
you receive advance notice of this award?
Mr. MANAFORT. Of the award to the program? I think we felt
that the program was going to be funded, yes, sir. I am sure there
was some understanding that the program was going to be funded.
There was no assurance that the project was going to be funded.
There is a distinction, sir, between the PHA program being funded
where there was at that stage, I believe, a high degree of expecta-
tion.
There was not—a guarantee is the right word—that this particu-
lar project would be funded. In fact, as you know, it was advertised
and there was a possibility that it would not be funded, that this
particular project would not be funded. So when we closed on the
deal and if it was April 9, I don’t have the closing date. If we closed
on it on April 9, it would have been with one expectation and a
hope on the other but not a guarantee.
Mr. LANTOS. What is your general view of dealing with a govern-
mental agency, which has a program that should be available to
qualified applicants on the basis of objective criteria in a priority
order, yet it seems that fees are necessary to coax approval out of
this public agency for specific projects which may be much less
meritorious than other public projects that do not hire influential
consultants who charge fees?
Mr. MANAFORT. I guess my opinion is that as long as the project
is merit-worthy and the procedure is followed——
Mr. LANTOS. The procedure was clearly not followed. It was fol-
lowed totally in reverse. Let’s assume that the project has some
merit. Let’s assume that on a scale of ten the agency has large
numbers of applications that are enormously meritorious, objective
analysts would rate them as No. 10 projects while there is another
project that may have a rating of two. And the project that has a
very low rating gets funded, but a much more meritorious project
doesn’t get funded. What is your view of that?
Mr. MANAFORT. If they are both meritorious, then my view is
that it was appropriate.
Mr. LANTOS. You do not differentiate in allocation of scarce resources. Let me give an analogy. Let me take it entirely out of the housing field. I take it into a field where Congressmen function so you can have a degree of detachment and objectivity in evaluating how we perform.

Let me take, as an example, our appointments to the service academies. Each of us has the privilege of appointing to the service academy young men and women who then, if they are accepted, go to Annapolis, West Point, the Air Force Academy, et cetera—assume there are two Congressmen. One Congressman establishes a committee of retired military officers representing all the services, and says you take all the applications. On the basis of your knowledge and background and experience, rate these people in rank order, and I will accept your recommendation and those will be my appointments to the service academies.

And let me take another Congressman, and I think this is a hypothetical Congressman, who says to all of these applicants, “You go and see my finance chairman friend and what—not and pay him $10,000, and then you will get a slot at West Point, which is a scarce slot.”

What would be your reaction to the second method of allocating service academy appointments?

Mr. MANAFORT. I guess the first question I ask is: Is the second person who is chosen merit-worthy on his own?

Mr. LANTOS. Is that the first question that you would ask?

Mr. MANAFORT. I think ultimately the question is, is the applicant or the project in this instance merit-worthy, and was the procedure followed in the absence of a specific procedure, was it followed in a way that was legal? Those would be two considerations that I think have to be looked at.

Mr. LANTOS. You would not be outraged that scarce slots are sold to the highest bidder?

Mr. MANAFORT. Well that’s sold, I would be outraged if they were sold, yes.

Mr. LANTOS. This kind of influence peddling would mean selling them, would it not? I mean, weren’t these units sold? James Watt testified that the going rate was $1,000 or $2,000. The going rate means a price, and a price means a sale.

I used to be a professor of economics. This is not higher economics. If there is a going rate, and somebody pays money and somebody accepts money, there is a sale consummated.

Mr. MANAFORT. I cannot discuss what Mr. Watt’s arrangements were. Our arrangements were not that. You are going from a speculative to a specific. I understand what you are trying to do, and I do not disagree with the analogies that you are trying to make. But as far as the project specific is concerned, the two key judgments are, one, is the program merit-worthy; and, two, is the procedure, whether it is a good procedure or a bad procedure, but if it is the procedure, is it being followed.

Those are the criteria. As far as our project is concerned, the Seabrook Project is concerned, I believe—and I believe the public housing authority believes up there that there was clearly a need—that the units were substandard, that this would be a leading project under any objective criteria, and based on that, our request
for funding our project was made. They had no problem in justifying it.

Mr. LANTOS. What is your reaction to the closing comments of the mayor and housing officer, both of whom expressed outrage at what is a project in their community?

Mr. MANAFORT. I disagree with it, sir.

Mr. LANTOS. You disagree with that. Do I hear you testifying, Mr. Manafort, that if you have to make a judgment about allocating scarce resources, then it makes no difference to you whether one project is much more meritorious than another project?

Mr. MANAFORT. I believe there is a threshold, sir. If it passes the threshold and the procedures don’t call for any gradation beyond that, then I believe they both merit consideration. I am not saying my project is a two. I happen to believe it is much higher than a two. It could be a ten based on the objective criteria.

Mr. SCHUMER. Mr. Chairman? May I just ask a question because this is—how many other projects are you familiar with? How do you rate your projects compared to others?

Mr. MANAFORT. It is speculative, I guess.

Mr. SCHUMER. You are saying yours is one of the best, not just meets the criteria.

Mr. MANAFORT. I believe our project fills a definite need in the community, if in fact these units were demolished. And that would be the only alternative, because new construction is not feasible.

Mr. SCHUMER. Do you have any idea of other projects that were turned down where someone did not have a consultant they could pay $300,000; do you know if those projects were more or less meritorious than yours?

Mr. MANAFORT. No. And that’s why I can’t answer the specific questions.

Mr. SCHUMER. Then I don’t know how you can say your projects were more meritorious than others. You knew it satisfied basic criteria. When we see, when we look at it, and we see large amounts of money—$1,000 an hour paid to somebody, we tend to think that person’s judgment is not totally objective on the issue.

Mr. MANAFORT. I understand the point. I guess my only point, and I’m not trying to be difficult here, is that we viewed this project as one which filled the local need. And we looked at the regulations and felt that this would get a priority treatment because it was decentralizing, moving it out of the urban area, because there was such a long waiting list and, because the units were in such substandard condition that, absent the rehab, the units would have to be closed down and then a 200-person waiting list would grow to whatever the units were there, because there was no other housing.

We felt, without trying to compare it with all the other projects in the world, which we have no ability to do, we felt that this project did merit consideration, and when we met with the public housing authority, this is the key point, they felt so, too. Otherwise, we wouldn’t have gone forward.

I don’t try and judge it as a two or a ten. I was trying to clarify, because the chairman had—not talking about my project—compared a two and a ten. I don’t want my remarks to be viewed as
my looking at ours at a low end of the scale. I was not trying to say that it merited x versus all the others in the universe.

Mr. LANTOS. Mr. Manafort, what other HUD projects have you been involved with?

Mr. MANAFORT. Me personally?

Mr. LANTOS. And your company.

Mr. MANAFORT. Your mean Black, Manafort, Stone & Kelly. There was one other housing project that we were involved in at the same time in West Palm Beach. We received a retainer. As I understand it, the project never went forward.

Mr. LANTOS. Those are the only two HUD projects with which either you personally or the company were involved in?

Mr. MANAFORT. To the best of my knowledge. I believe I am being correct. I have not been personally involved in any HUD representations beyond mod rehab. When I asked that question, anticipating being asked today, I was told there was a project in the West Palm Beach area, and we dealt with HUD in a similar way to try to get the program funded. I understand the program was funded, but the project was never funded.

Mr. LANTOS. Congressman Shays.

Mr. SHAYS. I will yield to Mr. Schumer.

Mr. SCHUMER. I just want to clarify that factual point. In the Wall Street Journal of June 19, 1989, Charles Black is quoted that the firm represented probably three or four clients at HUD.

Mr. MANAFORT. HUD. I thought you were talking about moderate rehab.

Mr. LANTOS. I meant HUD in general.

Mr. MANAFORT. I apologize, and I appreciate the opportunity to clarify it. Clients that came to us purely for HUD were the two I mentioned, my client and this other development. We have general representation, the city of Camden, for example, we represent on a variety of issues—not just HUD. We have dealt with HUD on some issues relating to Camden: HODAGs, UDAGs. We represent the National Handicapped Organization, and we have represented them before HUD on some handicapped housing programs.

We represent a university that had a housing component, that we represented them on, and we represented, on a pro bono basis, Coach Gibbs on this housing program, you may have heard about last night, and we helped assist him as well. As I am led to believe, there is some involvement on a program-by-program basis. The two instances on the moderate rehab are the only involvements, but no other representation is for HUD representation only. It is general representation.

Mr. LANTOS. Congressman Shays.

Mr. SHAYS. As you started to testify, and I saw everybody taking pictures of you, I thought I am happy I am not in your shoes. Any of us could be. It is not easy to find yourself in the position you are in. I know you came voluntarily and asked to testify.

I have a number of questions I want to ask you. I have to say that you are being billed as a consultant, but you are also actually an owner as well. Well, Ms. Siegel was a consultant-owner, and James Watt appears to have been just a consultant. All describe this system as being flawed. Ms. Siegel made the point that she did
the best with a flawed system. She said to us, this was the system we had to operate with and we made the best of it.

Mr. Watt seemed almost proud of his conduct. While he said it was a flawed system, he was happy to make the money he did make.

I am having a hard time characterizing your position on this whole process. It strikes me that in some ways, you are on dangerous ground, if I am right in thinking you are headed in the direction I think you are.

Deborah Gore Dean, in this quote many members have read, but I will read it again, said, "At least one former HUD official, Deborah Gore Dean, makes no bones about how this program was run. 'It was set up and designed to be a political program. I would have to say we ran it in a political manner,' said Miss Dean, who wielded immense power at HUD," as we obviously know.

Prior to your testimony, we had a mayor come and testify that he really never had any say in the project, that he questioned whether the town really wanted the project, and that he had a hard time getting the project up to standard.

It is very clear, at least to me—and I am happy to have you dissuade me or this committee—that the project ended up being very expensive. At least according to the mayor, he felt the rents were the highest in the community. The implication is that HUD was willing to agree to a higher rent, and the significance is that the tenants would pay a certain portion up to 30 percent of income, and HUD would make up the difference.

When we first started out, I was of the impression that what we were talking about that was the payment, as Mr. Watt said, was common knowledge on the street, $1,000 to $2,000 per unit. That was common knowledge to him and I guess everyone else who was relatively connected. I thought that was an expense that was coming out of the profits.

Though I did not like it, that is what I was led to believe. What the mayor was saying to us was, you better look at this project, because some people were not only able to get meritorious projects, but some were able to get projects accepted that really cost HUD too much money.

I think he was making it very clear to this committee that your project was that kind of project, with very expensive rents, and HUD had to make up the difference. If that is the case, then we know the consultants are doing more than just making a significant amount per unit. They are costing HUD, and ultimately the Government, and depriving those in need of some very important housing.

So I guess what I need to do is just pursue the process you followed to get this project.

Mr. MANAFORT. Congressman, if I might just make a point, I believe the mayor does not understand the program totally. I am not saying his motives are wrong. I am not saying that he is opposed to the program. You also heard the mayor say he thought a market rate program was feasible in that area. It is not.

We did not determine those rents. They were done by a survey and certified by HUD, submitted by the Public Housing Administration.
Mr. Shays. I have no comfort with anything HUD does.

Mr. Manafort. All they did was certify it. We did not determine the rents.

Mr. Shays. I know that, but some people make decisions in HUD and others don’t. I have no comfort level with the certification HUD agreed to, because everywhere I look at HUD, I see problems. Obviously, if they certify higher than they should, that makes the project feasible, but it costs the taxpayer a heck of a lot of money.

Mr. Manafort. My point is that the market rates for that area, that the PHA conducted the survey on, they did meet whatever the rates were. We did not set the rates.

Mr. Shays. As I view your circumstances, I don’t think you were guilty of any wrongdoing in terms of breaking a law. You obviously knew how the system worked, and you worked within that system. I have my own feelings about the propriety of that system, and how one works within it, but I am not saying in any way you broke the law.

Mr. Manafort. I appreciate that, that is my feeling as well. My only point is that the mayor said we were dealing with the rates. All I am suggesting, and it is not negative, I just don’t believe he understands the program.

Mr. Shays. A lot of us didn’t understand the program, and the more we understand about it, the less we like about it.

Mr. Manafort. That is a different issue.

Mr. Shays. Mr. Watt may not have done anything illegal, nor Ms. Siegel, but as I said to Mr. Watt, it was a very smelly, sleazy business, very honestly, and he was a part of it. You are here because your company and you were a part of it as well. I need to know. It is not that I am disinterested in the consultant’s side of it, and clearly I am more interested in hearing how the project can cost maybe more than it should, and I would like to come back to that, but I am more interested in knowing how the system worked within HUD.

That is where I would like to begin the reform and have people work with a different system. From the same article, there was a reference to a meeting about which the chairman read. I will read it again:

Whatever the genesis of the project, it followed an unusual course. In November 1986, that is 1986, a representative of Black, Manafort arranged a meeting with an official of the Division of Housing Development in the New Jersey Department of Community Affairs.

At the meeting, a representative of the project said they had made an arrangement in HUD, Washington, for moderate rehab units, recalls William Connolly.

I want you to tell me again who your representative was at that meeting.

Mr. Manafort. The meeting was set up by Greg Stevens.

Mr. Shays. In your office?

Mr. Manafort. He was associated with another company, of ours.

Mr. Shays. Don’t tell me he is a consultant.

Mr. Manafort. He is part of the orbit of our companies. He knew the individual in New Jersey. He set up the meeting, which was basically the introduction, and he just dropped out of the process.
Mr. SHAYS. It is so consistent with what we have heard. Everybody has somebody they need to set up the meeting. In this case, you had to ask someone named Greg Stevens to set up the meeting, and he was your representative at this meeting for the purpose of initiating contact with Mr. Connolly.

Mr. MANAFORT. And I believe Mr. Cruse was at that meeting.

Mr. SHAYS. He was a more active participant?

Mr. MANAFORT. He was the developer and the point person. There is an intermingling.

Mr. SHAYS. When I said a more active part of your company, he was in the firm you set up, the active player you described?

Mr. MANAFORT. He was the project coordinator.

Mr. SHAYS. It is interesting to me that you decided to have him at that meeting. Let me then go to something the chairman asked you about. You had this meeting in November 1986, and then you had an application that shortly followed. The application is on a letter. I understand, which I did not before, you had no local public housing authority in this small community, so the State becomes the PHA.

The PHA writes a letter to the regional administrator. The chairman asked a very significant question, a number of significant questions. But it was noted in the application letter it was a blind carbon copy to Samuel Pierce, and then it said, "Attention Miss Deborah Dean."

You have answered that you did not understand that it was blind, so you have no knowledge about why it was a blind copy?

Mr. MANAFORT. I didn't know.

Mr. SHAYS. Why was she carboned at all, and who told someone to carbon her?

Mr. MANAFORT. We would have told the PHA to carbon her, and the reason she met with and suggested we have the PHA submit the application.

Mr. SHAYS. Who met with Miss Dean?

Mr. MANAFORT. Mr. Gay.

Mr. SHAYS. Laurence Gay met with Deborah Gore Dean before the meeting with Connolly, or after?

Mr. MANAFORT. Before. The meeting date was November 14. As best we are able to reconstruct, that is when he was meeting on matters regarding the City of Camden with Ms. Dean. And this was brought up after the meeting.

Mr. SHAYS. It was November 14 with Deborah Gore Dean, and Laurence Gay was at that meeting. Then there was a meeting with Mr. Stevens.

Mr. MANAFORT. I believe the Stevens communication occurred between the 14th and the 20th.

Mr. SHAYS. Then there was the letter. Obviously, your firm had to have told Mr. Connolly to cc Deborah Dean, correct?

Mr. MANAFORT. I am certain that we did. I was not there, but yes, I would think that is true. It would have to be true, because they would not know Deborah Dean otherwise.

Mr. SHAYS. When Tom Demery met with us, he described a number of projects he met with Deborah Dean about on January 9, 1987. When he met with Deborah Gore Dean, there were a number
of projects he wanted, and there were some projects that she wanted. One of the projects that she wanted was your project.

It was not one of the projects, according to Mr. Demery in his disclosure to this committee, that he wanted. In fact, they had an argument over a few, and they ended up having a meeting on January 13 with Mr. Pierce over this choice.

Tom Demery was in charge of these programs. Even though Tom Demery was the FHA Commissioner, Deborah Gore Dean was the key player here.

Mr. MANAFORT. Congressman, if I might just state, I don’t know that she was the key person. She was the person we dealt with. I don’t want my comments to be misconstrued that she was the key player. That is who we dealt with, but I can’t say that we knew she had the key part.

Mr. LANTOS. Will my colleague yield?

Mr. SHAYS. Sure.

Mr. LANTOS. Why did you choose to deal with her if she was not the key person?

Mr. MANAFORT. We understood she was involved. Mr. Gay was already there. We felt she was involved. I don’t want my testimony to be viewed as saying she was the definitive player. We didn’t know whether she was the definitive player or not, but we certainly felt that if she supported the program that would be very good for us.

Mr. LANTOS. She gave you a strong indication, if not a guarantee, that your project would be funded—you felt very comfortable about that.

Mr. MANAFORT. There was never a guarantee. That was the point I was making earlier. There was hopeful expectation.

Mr. LANTOS. A strong promise?

Mr. MANAFORT. She didn’t promise. As I said, she asked two questions: Did the public housing authority support the project, and had they submitted an application?

Mr. FRANK. At that time, the answer to both was no?

Mr. MANAFORT. At that time, the answer to both was no. Well, the answer to the second question was no. As I already told you, before the meeting with Connolly, as I understand it from my partner, he had been up there talking with the local housing authority, and they agreed that the project was meritorious. So, we felt comfortable with that part, because that is why we proceeded.

What they had not done was submit the application.

Mr. LANTOS. I thank my colleague.

Mr. SHAYS. In this meeting that happened on January 9 with Mr. Demery, he did concur and agree to fund your project. We have the 185 dated January 9, the time Deborah Gore Dean and Tom Demery met. The 185 basically separates funds and provides funds to the region for the 326 units.

With the 185 form, the region received 326 units. Then on February 25, the region gave to the field the form 185.1, which transfers from the region to the local community.

Now, what we have is the purchase of a property in April, 1987 and than on May 18, we have the advertisement of this property by the public housing authority. In other words, the public housing authority advertised 326 units.
I just want to be very clear, because I think this was one of the key points the chairman asked. I am not sure of your answer. Did you know that the 185 had been sent to the region, the 185.1 had been earmarked to the local community, and that it specifically said there would be 326 units?

Mr. MANAFORT. That it had been allocated to the public housing authority. We knew when they advertised on the 18th, they would have had the program funded in order to advertise. Our concern was that on the 18th when they advertised, the program was opened up to the public, appropriately so, for projects, and the way the advertisement read “of 100 units, or more.” So, there could have been applications, in which case our program would have been judged compared to any other applications submitted.

Mr. SHAYS. This is where I get uncomfortable with your testimony, because if you said you knew, and this is the way the system worked, and this is what you did—

Mr. MANAFORT. We didn’t feel that we had a guarantee on the program. When they advertised, we were at risk. Did we know that the public housing authority had received the units? Yes. Did we know that we had the right to those units? We had no right to those units.

Mr. SHAYS. Was this advertisement for the whole State or to the small community of 7,000 in which you owned the 326 units?

Mr. MANAFORT. I believe it was for the area and not just the community, and it was in components of 100 or more, so there could have been other applications. It was not an advertisement for a 326-unit project.

Mr. FRANK. My understanding is that it was not for the whole area but just the Township of Seabrook. I thought it was specific.

Mr. SCHUMER. Do you know any other place this advertisement appeared aside from the Millville Daily?

Mr. MANAFORT. I don’t know anyplace it appeared, Congressman.

Mr. SCHUMER. I know all the big developers in New York get the Millville Daily every morning to see the projects advertised.

Mr. MANAFORT. I don’t know where it was advertised.

Mr. SCHUMER. Even if the project was meritorious, the selection of your firm leaves a stench in one’s nose, because it was not openly advertised. They did not give much time. It was advertised May 18. June 1, you were approved. No one would think that is an open bidding process.

Mr. MANAFORT. There was not, as I understand it, even a need to advertise. Our program was in the pipeline. We had submitted our application already, and the housing authority could award pipeline projects or it could advertise, and then award. I may be wrong in that understanding.

Mr. SCHUMER. Do you agree the advertising was a sham?

Mr. MANAFORT. The advertising put us at risk.

Mr. SCHUMER. Who in Millville was going to take it away from you?

Mr. MANAFORT. I really don’t know where it was advertised, but we felt we were at risk at that period of time.

Mr. LANTOS. If you will continue to yield, I will read the advertisement:
The Department of Community Affairs, Division of Housing and Development, Bureau of Housing Services invites developers to submit proposals for the moderate rehabilitation of existing structures to be considered for Federal Section 8 moderate rehabilitation subsidies for which the agencies will receive funding. All projects must contain at least 100 units and must be located in the City of Seabrook.

The person who put in the ad didn’t know what town the project was going in. The name of the project was Seabrook. This was an advertisement tailored for you. No one on God’s green earth could have qualified except for you.

This was about as phoney an advertisement as I have ever seen.

[The advertisement follows:]
PUBLIC NOTICE

The Department of Community Affairs Division of Housing and Development, Bureau of Housing Services ("Agency") invites developers to submit proposals for the moderate rehabilitation of existing structures to be considered for federal Section 8 Moderate Rehabilitation subsidies for which the Agency will receive funding. All projects must contain at least one hundred (100) units and must be located in the city of Seabrook. All funding decisions will be made by the Agency, based on the financial feasibility of each proposal and the following criteria:

(1) Projects with applications previously submitted, but not funded by previous awards; (2) feasible projects providing the greatest dollar amount of rehabilitation per unit; (3) projects involving abandoned or idle buildings; (4) projects whose unit size distribution most closely matches the Agency's funding authorization; (5) projects with the shortest time period for rehabilitation; (6) date of receipt of proposal by the Agency.

The Agency is being awarded federal monies through the Section 8 Moderate Rehabilitation program, which awards qualified rehabilitation projects the difference between rental amounts tenants can afford to pay and a contract amount that covers the cost of moderate rehabilitation. Rental subsidies are guaranteed for fifteen (15) years. Moderate rehabilitation is defined as work needed to upgrade existing buildings to decent, safe and sanitary condition, replace or repair major building systems in danger of failure, and make cost-effective energy conservation improvements.

Developers may write to request an information packet to the Bureau of Housing Services, CN-051, Trenton, New Jersey 08625-0631, or they may pick one up at the Bureau of Housing Services, 3131 Princeton Pike, Building 3-A, Lawrenceville, New Jersey 08648.

Note: This is not a notice for tenant applications for Section 8 assisted housing. Do not submit applications for tenancy.

Completed applications on the forms provided must be received in the Agency by no later than the close of business on (date two weeks from date of publication). All proposals submitted more than one year prior to this public notice, in response to previous agency requests for proposals which have not been funded as of the date of this public notice, must be updated and resubmitted in order to be considered at this

EQUAL HOUSING OPPORTUNITY

We are pledged to the letter and spirit of U. S. policy for the achievement of equal housing opportunity throughout the nation. We encourage and support an affirmative advertising and marketing program in which there are no barriers to obtaining housing because of race, color, religion, sex, or nation origin.

"Millville Daily" May 18, 1987
Mr. Manafort. I guess I have three points to make. One, the advertisement was not even necessary. Two, we felt certainly—

Mr. Lantos. Yes, it was. Why do you believe it was not necessary?

Mr. Manafort. It is my understanding that the PHA had the authority to fund programs that had already been supplied, what is called in the pipeline.

Mr. Lantos. At some point in the process, it has to be competitive. It certainly was not competitive at the beginning, because you initiated it. It certainly was not competitive at the end, because the advertisement was not only sloppy but so narrowly prepared that only your project could qualify for it.

This was a sham and illusion that it was publicly advertised. It was not publicly advertised. There was a hocus-pocus pretense of a public advertisement, but everybody knew that the award would go to you. You knew that. We know it. HUD knew it. Deborah Dean knew it. It would be nicer to clear the air and state it because everybody knows it.

Mr. Manafort. I am being very honest with you. We felt at risk during that period of time.

Mr. Lantos. I accept that statement.

Explain to me how the person who drew up this advertisement did not advertise the city which is an existing community in New Jersey but advertised the city of Seabrook? Was this a Freudian slip?

Mr. Manafort. I don’t know who drew up that advertisement. I never read that advertisement.

Mr. Lantos. Somebody at the PHA did it. They placed the ad. They said Seabrook. It is like a public agency advertising for automobiles, and instead of using the word automobiles, they use the word “Chevrolet.” You would not think it was innocent. You would think there is a deal preexisting that Chevrolet will get the job.

Mr. Manafort. I am not disputing that. Our objective was to secure the project funding. I don’t disagree with you. All I am saying is that we did not have a guarantee that this program would have been funded, and we were at risk at that point in time. But we certainly felt——

Mr. Lantos. State that risk for me.

Mr. Manafort. If other applications had been submitted.

Mr. Lantos. But there was no other conceivable developer who had 100 units in the city of Seabrook.

Mr. Manafort. You are going beyond my knowledge of what was in the area. The conversations I had with my developer partners, this was a period of risk for us.

Mr. Lantos. I thank my friend for yielding.

Mr. Shays. Are you gentlemen all set?

Mr. Schumer. Well——

Mr. Shays. I will yield once and then I will take over again.

Mr. Schumer. This is so utterly amazing. You read this ad and they may as well cut out all things and add one sentence, “the fix is in.” That is all.

Mr. Shays. Really, the point the chairman made, and I think the other members of the committee made, was that in response to his
question, "Did you have advance notice," the answer is an unequivocal yes.

Mr. MANAFORT. Of the program being funded.

Mr. SHAYS. That the 185 had been sent to the region, the 185.1 had gone into the field and the advertisement. The only one that could get the funding was this project. That is really what it was. While we may decide that is not the way the system is supposed to work, that is the way the system has been working, not only with your project, but with a whole host of other projects.

Let me ask you, did you have notice before the advertisement that 326 units had been basically earmarked for the Seabrook area?

Mr. MANAFORT. That program had been funded. It is not a distinction without a difference, Congressman. I am not trying to be argumentative. I am trying to be cooperative. We knew that HUD was going to fund the program. At some point in time, we knew that, and we followed it.

Mr. SHAYS. When you say you knew HUD was going to fund the program, you knew HUD signed the 185 to the region for 326 units, correct?

Mr. MANAFORT. We had that knowledge.

Mr. SHAYS. You also had the information before the advertisement that the region had decided there would be 326 units in the field for Seabrook, correct?

Mr. MANAFORT. We knew they could not earmark, per se.

Mr. SHAYS. I would have gone on to the next question.

Mr. MANAFORT. I am not following what you are trying to get at. We were involved with the PHA and yes, we knew when the PHA received notification of program funding. If that is what you are getting at, the answer is yes.

Mr. SHAYS. If I am trying to get at what again?

Mr. MANAFORT. We are dealing with the PHA, and we were made aware when the funding arrived at the PHA. We had been dealing with them all along, so when the funding did hit the PHA level, we were aware of it.

Mr. SHAYS. The testimony we have from you is that you went to the PHA, initiated that meeting, and you actually chose to have Mr. Stevens initiate that meeting with Mr. Connolly, who happened to have worked in Governor Kean's office, as his Chief of Staff?

Mr. MANAFORT. Not at that time, though. He had previously been the Chief of Staff to Governor Kean, which is why he knew Mr. Connolly.

Mr. SHAYS. One of the things that is very clear is that you knew the way the system worked, and you had contacts to open doors. Mr. Stevens opened up the door for you to meet with the public housing authority. You initiated that meeting. This was developer-driven.

There is a whole other issue about whether that is right or wrong, but I want to establish the reality of this program. I want to know if you fit into the other programs we have looked at.

The former Chief of Staff to the Governor sat in the meeting with the PHA. The Chief of Staff wrote the PHA, wrote to HUD
and blind copied Deborah Gore Dean. She had already been contacted by Laurence Gay. Did Laurence Gay ever work at HUD?

Mr. MANAFORT. I think in early '85, he was a consultant to HUD in the enterprise zone program.

Mr. SHAYS. Didn’t he work with Deborah Gore Dean?

Mr. MANAFORT. I don’t think he worked with Deborah Gore Dean.

Mr. SHAYS. Did he have contact with her?

Mr. MANAFORT. I don’t know.

Mr. SHAYS. Laurence Gay met with Deborah Gore Dean. Tom Demery tells this committee he agreed to what she wanted, and that day, they signed the 185. A few weeks later, they signed the 185.1. You knew before the advertisement that it was going through, and you bought the property. The only one who answered the advertisement, because it defies logic to say anything else, the only one who responded to it was you, because you were the ones in the small community who had the units. Who else could have done it? That is the way the system works.

Let me get to the last part of the system. I had basically accepted the premise, because the chairman used an analogy I thought was interesting. He said, if 10,000 applied to Yale and 1,000 got accepted, hopefully the system works to the best. But his point was that almost everyone who applies to Yale probably is qualified, but some are more qualified than others.

You pick the top, 1,000 of however many are going to be in school. So, we were beginning to draw the analogy that your project was another worthy project, but you had special contacts and knew how the system worked. We did not criticize Ms. Siegel very harshly for saying the system worked this way, and she worked in the system. She was very candid.

She said if you don’t like the system, change the system. That is not the approach you have taken.

Mr. MANAFORT. Congressman, I am not disagreeing. I have tried to give you the facts. I am saying we thought our project, and the PHA thought our project was merit-worthy. I think I indicated rather forthrightly the process in which we felt was the appropriate process. Now, whether in fact the process should be changed is up to this committee, and I know it is the purpose for which you are having these considerable deliberations.

I am not competent to tell you what the best system should be. What I have tried to testify to is the fact that we reviewed the system that was in place, and we worked within that system. The first key step in our judgment, was the project merit-worthy and did it fit within normal guidelines of the programs HUD was financing?

Our determination was yes, for all the reasons I mentioned.

Mr. SHAYS. Congressman Schumer’s point was it probably met the minimum threshold to get you in, but among the vast majority, how did it fit in? You cannot testify to that, because there was no process of competition. That is the reason we are getting into this.

Mr. MANAFORT. I feel comfortable saying you know I don’t know what the threshold was, but this project was in an area where there was a waiting list that grew from 200 people to over 500 as of last September.
Mr. Shays. That is irrelevant, because anywhere in this country, you will find a waiting list for housing. It is a question of how much where.

Mr. Manafort. My point is that we felt comfortable that the project fit within HUD's criteria for meritorious programs. Then we got into the process that you have talked about.

Mr. Shays. I come down to the end with a real concern that the project probably was not a meritorious project. Admittedly, it is based on limited information. I am headed in that direction. I learned something today I did not suspect I would learn. It is very likely that people who knew how the system worked and worked within that system were able to get their projects accepted, even if they were not meritorious.

It was an extraordinarily expensive project, with rents clearly high. It cost HUD a lot of money over the life of the 15 years. I have a tremendous concern about that. I have no doubt of Deborah Gore Dean's involvement in this project, and I hope she will testify at some time, but this system where you have an administrative assistant to a Governor set up a meeting, a lot of people don't have that system.

You introduced your firm as a law, public relations and lobbying firm. I know this committee talks about influence peddling. I think it exists everywhere in this city, not just with HUD. It exists with Republicans and Democrats, whether it is a Democrat influencing a Democrat in Congress, or a Republican influencing a Republican in the administration. That is how people make an extraordinary sum.

You mentioned the amount you charge on an hourly basis. It is an extraordinary sum of money. It is typical of what other firms do.

Mr. Manafort. I feel very comfortable talking about processes in this town, because I do believe the lobbying process with law firms like ours, is able to help focus debate and help decisions get made. Influence peddling can be used to some degree, but lobbying involves providing information, developing a case just as you would in a court of law, meeting with Members of the Congress, members of the administration, and advancing a case.

It is not unusual to have an entree be made so that your case can be heard, but ultimately in the process, the merits of the case, in my judgment, usually are the bases upon which decisions are made. I feel comfortable today saying that the merits of this project, in our judgment and the judgment of the public housing authority clearly qualified this project to be funded.

Mr. Shays. I guess we really disagree on the way this process works. I believe that it has to be totally changed.

Mr. Manafort. I don't know that we disagree on the way the process works, Congressman. I understand that your responsibility is to try and redesign the system in a way to meet certain objectives. I don't disagree with this process going forward in that regard.

Mr. Weiss. You gave us an exposition on what lobbying is in this town. You are not suggesting that your company's role in this instance was that of lobbying vis-a-vis influence peddling, are you?
Mr. MANAFORT. I guess what I am trying to say is as far as Black, Manafort, Stone & Kelly——
Mr. WEISS. No, no, what I asked you about was in this instance, was your role that of a lobbyist?
Mr. MANAFORT. I would say that this fits in that general definition. Yes, sir.
Mr. WEISS. You had said earlier on that, in fact, you could characterize what you did as influence peddling?
Mr. MANAFORT. In a narrower sense, that's right.
Mr. WEISS. Pardon?
Mr. MANAFORT. In a narrower sense I said you could, for the purposes of discussion today, you could say that.
Mr. WEISS. Lobbying involves legislative bodies, isn't that so?
Mr. MANAFORT. No, it's involving the Administrative process, too. I mean, I don't define lobbying as just dealing with the Congress of the United States, and I don't think that in this town that term lobbying would be viewed in this context.
Mr. WEISS. So that this is both lobbying and influence peddling, is that the idea?
Mr. MANAFORT. Again I don't want to get into that whole debate you've had many lines now, so I will stipulate this for purposes of today that you could characterize this as influence peddling.
Mr. WEISS. Thank you.
Mr. SHAYS. I'd just conclude by saying we know the system is not supposed to work this day, and we know we have to correct it. I just want to also make the point, however, that I would feel like a hypocrite if we said the only influence peddling that took place was in HUD. It takes place in every aspect of our Government. We as a Congress, we have to recognize that fact and obviously need to change it. If we say we discovered some horrible influence peddling in HUD, as if that is the only place it ever occurred, I have a problem with that.
Mr. LANTOS. Congressman Frank.
Mr. FRANK. Thank you, Mr. Chairman.
I would say to my colleague from Connecticut, of course there are problems elsewhere, which we try to control, and I hope we will pass a post-employment lobbying bill and other things. But it is also relevant to say, it is sometimes worse in some places than in others. If everyone is guilty, no one is guilty, but in this case, some are guiltier than others.
I also want to apologize to my colleagues from New Jersey. As a former resident I stipulate that God's green earth includes New Jersey—not the part I grew up in but the other part, I agree! [Laughter.]
Now, Mr. Manafort, you said you were supplying information. You couldn't even have given the information to get the town right, and that's my problem. The suggestion that you were really at risk and those things is just very unpersuasive. First, we should also add it was not just Washington, but it was Trenton, apparently where you had influence peddling. You hired a Mr. Stevens who used to be the Chief of Staff to the Governor, I heard. When did you hire him?
Mr. MANAFORT. Mr. Stevens joined us in about 1985.
Mr. FRANK. I see, and is he still working for you?
Mr. Manafort. No.
Mr. Frank. When did he leave your employment?
Mr. Manafort. About a year ago.
Mr. Frank. One of the things he did was to set up an appointment with the head of the State Department of Community Affairs in this matter.
Mr. Manafort. Yes.
Mr. Frank. Did he get paid by the particular task or was he on a regular salary?
Mr. Manafort. He was on a salary.
Mr. Frank. Now you said the public housing authority, and I thought Mr. Shays made some very important points about the merits—in fact, I don’t think you, frankly, had any idea what the merits were, or were in a position to know what the merits were. As I’ve said before, this reminds me of Viscount Melbourne’s announcement of why he’d like the Order of the Garter—because there was no damned nonsense about merit connected with the award of it. It seems to be patently clear there. You want to see—well you said Mr. Cruse was first apprised of this community. Is that correct?
Mr. Manafort. Yes.
Mr. Frank. Had you a prior relationship with Mr. Cruse, your firm?
Mr. Manafort. We were in the process of bring our business together. Yes, we had several projects we were looking at.
Mr. Frank. Okay, so then Mr. Cruse went to your firm and said we think we can help together on this?
Mr. Manafort. Mr. Cruse and I were involved—
Mr. Frank. You were already partners.
Mr. Manafort. That’s right.
Mr. Frank. Right. Now what housing work had your firm done previously?
Mr. Manafort. This was the only housing authority work we had done. But as I—
Mr. Frank. No, I didn’t say—Mr. Manafort. You have an unfortunate habit of answering the questions you want to answer. You can do that later. I didn’t just say housing authority work—
Mr. Manafort. I’m sorry.
Mr. Frank. What other housing work had you done?
Mr. Manafort. Mr. Cruse was the Deputy Commissioner for the Department of Housing in the State of Connecticut.
Mr. Frank. But you had yourself, in your operation, you personally had done nothing about housing.
Mr. Manafort. I personally. That is correct. But that was not my role, sir. I was involved—
Mr. Frank. Your role was facilitating?
Mr. Manafort. No. In the company involving Mr. Cruse, I was involved with an office building project they were—
Mr. Frank. I’m talking about this project, here. You had no role in this project?
Mr. Manafort. He was the action officer.
Mr. Frank. I didn’t ask you whether he was. When I say, did you have a role, and you say what he was, that is called that is not an-
swering the question. Were you involved with this particular housing project?

Mr. MANAFORT. To the degree that I have testified, yes.

Mr. FRANK. The answer is yes. Okay. And it is the first housing project you personally were involved with?

Mr. MANAFORT. That is correct.

Mr. FRANK. Mr. Cruse came to you. At that point did he mention to you, approximately, that this was a good opportunity?

Mr. MANAFORT. It was sometime in the fall of 1986.

Mr. FRANK. And the next thing that happened apparently was that people went to see Ms. Dean?

Mr. MANAFORT. No. I believe the first thing that happened, as I testified is he went down and look at the site, and analyzed the site to determine——

Mr. FRANK. Who did, Mr. Cruse did?

Mr. MANAFORT. Mr. Cruse. Okay?

Mr. FRANK. Based on that, your people want to see Ms. Dean, or who—Mr. Gay saw Ms. Dean?

Mr. MANAFORT. Next was around the 14th of November.

Mr. FRANK. Mr. Gay went to Ms. Dean, all right. Now, you say the public housing authority applied for this on the basis of its merit. The public housing authority. Your meeting with Ms. Dean, Mr. Gay’s meeting with Ms. Dean was on the 14th of November?

Mr. MANAFORT. That is correct.

Mr. FRANK. When was the application submitted by the public housing authority to HUD?

Mr. MANAFORT. The 20th of November.

Mr. FRANK. So, in those six days, the public housing authority discovered the merit of this project?

Mr. MANAFORT. No, I believe, Congressman, as I said, when Mr. Cruse went down there and looked at the site. I believe that he visited with the PHA, as well.

Mr. FRANK. You believe or you know? Mr. Manafort, I want to be very clear, and I want you to listen. Your memory is too conveniently selective for my taste. Sometimes you only know very specific things and sometimes you only believe things. Do you know that Mr. Cruse spoke to the public housing authority, did you guess, did he have to, was it inference?

Mr. MANAFORT. I am going to get you that exact date. I don’t have it.

Mr. FRANK. Did Mr. Cruse talk to the public housing authority?

Mr. MANAFORT. It is my understanding that he did, yes.

Mr. FRANK. About what time, September, October?

Mr. MANAFORT. I believe—yes, that is right.

Mr. FRANK. No. I said—that was in the alternative, that was not a yes or no. September or October?

Mr. MANAFORT. It is my understanding, and this is what I am going to give you the specific date on, when he went and visited the site. To be honest with you, I was preparing myself for testimony——

Mr. FRANK. Mr. Manafort, please just answer questions.

Mr. MANAFORT. I will get you that date, sir. I don’t have the date.

Mr. FRANK. You say he went to the public housing authority.
Mr. MANAFORT. It is my understanding that he went to——
Mr. FRANK. It is your understanding that he did. But you don’t recall when or how much extensively they talked about it. And then on November 14, you talked to Ms. Dean, and she said, get the PHA to apply. Who told the PHA to apply? Who asked them to apply?
Mr. MANAFORT. Who specifically?
Mr. FRANK. Yes.
Mr. MANAFORT. I——
Mr. FRANK. They got the application in in about a week after, six days after the meeting, counting weekends, they had the application there. That is pretty good and quick. And then Mr. Lantos asked you, I was unclear as to the exact answer, it said on April 9, you bought the apartments. Is that correct? Your group. I’m assuming it is April 9, but at some point in April, before the PHA was notified by the field office, correct?
Mr. MANAFORT. That is correct, yes.
Mr. FRANK. All right. How much did you pay for it, approximately?
Mr. MANAFORT. For the project?
Mr. FRANK. Yes.
Mr. MANAFORT. Approximately $4.4 million.
Mr. FRANK. It is not often you get to buy a city, the city of Seabrook. You paid $4.4 million. Had you hedged that in any way? I mean at that point, you say you didn’t even know if the project was going to be approved, is that your testimony, when you bought it?
Mr. MANAFORT. We felt that we did not have a guarantee that the project was going to be funded. We felt comfortable——
Mr. FRANK. So you didn’t get any advance notice. Did you find out that the award had been approved from HUD or did you find it out from the PHA?
Mr. MANAFORT. We probably found it out from HUD.
Mr. FRANK. Before the PHA did.
Mr. MANAFORT. Maybe contemporaneously. I don’t know when the PHA specifically——
Mr. FRANK. Two weeks after you bought the property, the PHA got formal notification.
Mr. MANAFORT. Then we probably knew about it before then.
Mr. FRANK. The inference is clear, you bought the property, you knew from HUD before the—let’s go back. HUD told you before it told the public housing authority. Now, if you were at risk, and you didn’t have any right to, and it was the PHA’s application, doesn’t it seem to you improper that a public agency would notify a potential applicant before it would notify the other public agency from whom you would be the applicant?
Doesn’t that seem to you improper?
Mr. MANAFORT. We did not think that that was improper.
Mr. FRANK. Do you know? I mean, the point—no, I want you to answer the questions. The public housing authority, you say, you have described as a process in which you brought this meritorious project to the attention of the public housing authority; they then applied to HUD, and you were at risk in applying for it.
I think that is at variance with what happened, in fact, and one of the reasons I think so is that after the public housing authority
has applied and has been approved by its—the State agency is approved by the Federal agency, and a potential applicant is notified by the Federal agency before the State agency is notified.

That seems to me improper.

Mr. MANAFORT. I guess the point that is getting lost in the process here is that there was—the fact that the program had been funded didn't mean that our project—

Mr. FRANK. No, it is not getting lost Mr. Manafort. We are very clear about it. No, it didn't mean that your project had been funded, because although you did have enough confidence in that to go out and spend $4.5 million on a piece of property——

Mr. MANAFORT. We felt at risk.

Mr. FRANK. Yes, great risk. Had you not gotten these units, what would the financial outcome have been with the property? What would the property have been worth to you, do you think, if you had not gotten the units?

Mr. MANAFORT. The property has value. I can't answer that question, specifically because I don't know that the analysis is done.

Mr. FRANK. If it weren't for this project, though, you wouldn't have bought the property?

Mr. MANAFORT. If it weren't for the moderate rehab subsidy?

Mr. FRANK. Right.

Mr. MANAFORT. This particular project wouldn't have worked without——

Mr. FRANK. I didn't ask whether the project would have worked.

Mr. MANAFORT. We would not have rehabbed the property.

Mr. FRANK. I say bought, you say rehab. I am sorry if it is my diction, I can't help it. If I am not clear, ask me, I will say it again.

Would you have bought the property if you did not think there was a very good chance of getting the money?

Mr. MANAFORT. If we did not think there was a good chance, we would not have bought the property.

Mr. FRANK. So you put up $4.5 million, no hedging, no outs. Did you have any escape clauses in that contract? When you bought it, you bought it?

Mr. MANAFORT. I do not believe so.

Mr. FRANK. You just put down the $4.5 on reasonable expectation, and it sounds to me like you probably—do you remember whether you were notified before you bought it, that it had been approved? Not you as the applicant, but the project funding, do you remember whether you were notified or not?

Mr. MANAFORT. The project funding itself?

Mr. FRANK. Yes.

Mr. MANAFORT. You mean whether this project——

Mr. FRANK. Not whether you were going to compete with the dozens of other people looking for the city of Seabrook, which they probably thought they were supposed to build housing for the nuclear workers in upper New Hampshire which is probably the closest unit spelling of Seabrook. But were you notified by HUD that the PHA's application had been approved before you bought the building?

Mr. MANAFORT. Probably, yes, sir.

Mr. FRANK. So, you got prior notice and went out and bought the buildings. That is why, Mr. Manafort. Nobody, nobody in this world
believes that you had any doubt whatsoever. You get a notification from HUD—here is how it works. Your partner gets the notion and hears about this, you go to Ms. Dean through one of your people, you then urge the public housing authority to apply, which it does in less than a week, setting a record.

They are then—win that, but you are notified before they are, and you buy a project which is eligible and then when the public housing authority advertises, somehow they don’t even mention the name of the municipality in which this happens, Upper Deerfield Township. They call it the city of Seabrook, of which I suspect there is none in New Jersey, and this is why no one believes that you were really at risk.

Because you got notified in advance, and then the public housing authority advertised it for the project, miscalling the municipality by the name of the project you have bought.

Mr. MANAFORT. Congressman, I have made it clear, we were working at that point in time with the public housing authority openly. There was nothing quietly or secretly going on. We felt we had a project that merited funding, and we were dealing with them.

Mr. FRANK. You were the one who said you thought you were at risk. Now you are telling me why you didn’t think you were at risk. I think you’re answering this one in the alternative.

Mr. MANAFORT. It is not an alternative answer, Congressman. We were working with the public housing authority. We felt comfortable that they felt comfortable that our project was merit-worthy, as we did, but we had no commitment—you may consider it a distinction without a difference.

Mr. FRANK. I do.

Mr. MANAFORT. From a technical standpoint—

Mr. FRANK. I tell you what I consider it, I consider it proof that this was a project in which political influence rather than the merit was a deciding factor. What you say, your firm was hired here, you were probably a principal, but you were probably hired as a firm, correct?

Now, what was your firm hired to do as opposed to you as a principal?

Mr. MANAFORT. Black, Stone, Manafort and Kelly?

Mr. FRANK. Yes.

Mr. MANAFORT. We ended up doing several things, as I said earlier. One was we did deal with HUD on the program.

Mr. FRANK. When you originally were hired, what was the intention of what you were doing?

Mr. MANAFORT. To stay with the project the whole way.

Mr. FRANK. And do what? You weren’t the night watchman.

Mr. MANAFORT. I will give you an example of the things we did.

Mr. FRANK. I want to know not what things you did, but what at the outset, when you hired yourself, what you had persuaded yourself you could so ably do.

Mr. MANAFORT. When the firm was hired, we understood that our responsibility would be to deal with the local housing authority, to deal with the Department of HUD, to deal—at an administrative level, in attending the meetings.
Mr. Frank. I appreciate it. Basically to do some of the necessary political and—

Mr. Manafort. But much broader than that, Congressman.

Mr. Frank. And when did you hire yourselves?

Mr. Manafort. We probably started—well, when, probably right around the beginning of November, when we decided to move forward.

Mr. Frank. November 1986. You are a very sophisticated firm with a lot of expertise and no one in your firm, in all that time, talked to the local officials? That seems to me shocking.

Mr. Manafort. I am sorry——

Mr. Frank. How come when you hired yourselves, none of you talked to the local officials? You can’t tell me, you were being asked—one of the problems we have, this is the current mayor and he is speaking on his own behalf and his predecessor, with the housing officer. You are hired to provide this sophisticated, knowledgeable service and talk to this one and that one, and among the people you don’t talk to are the local officials.

That seems to me just to be—just, if I were hiring a consultant to deal with the local people—you keep saying the local housing authority. We ought to be very clear. There was not public housing authority, it was the State housing authority in Trenton from whom you had to hire the former Chief of Staff of the Governor. Or not hire, but to whom you were assigned the former Chief of Staff of the Governor, and go and talk about this project.

That does not suggest merit was the basis.

Mr. Manafort. No, to introduce us to the people.

Mr. Frank. Why did you have to be introduced to talk about the merits of a project?

Mr. Manafort. You technically don’t have to be, but it is not an uncommon practice to be introduced that way.

Mr. Frank. That helps shift it away from the merits. Who did you meet with? You met with the head of the Department.

Mr. Manafort. Yes, I believe so.

Mr. Frank. You met with the Executive Assistant to the Secretary. You don’t go talk to the—by the way—well, we will go back to that briefly. Why didn’t your firm, providing its broader-gauged expertise, talk to the local officials?

Mr. Manafort. Because, as I think I have testified, I believe that Mr. Cruse had already dealt—ultimately, we did, as we got into the project——

Mr. Frank. Ultimately, ultimately, that is not what I asked you. You are trying to evade the question. This Chairman has been very good with you in giving you a chance to talk about other things. But you are not going to get away from answering the question.

You say you believe you talked to the local officials. I see you have gotten some more information during the break. You heard Mayor Peterson say they already consulted, you really went and checked on a few things.

You could find out that three people weren’t really going to be kicked out, but you couldn’t find out if anybody talked to the mayor. You say you believe Mr. Cruse did. During what time period do you believe Mr. Cruse did?
Mr. Manafort. It is my understanding, Congressman, and I can't give you the dates—

Mr. Frank. From who? Did you get this from Mr. Cruse?

Mr. Manafort. Yes.

Mr. Frank. When you say it was your understanding, does that mean Mr. Cruse told you?

Mr. Manafort. That's correct.

Mr. Frank. He told you what about local officials?

Mr. Manafort. That they had met with, I believe it was the previous mayor, not this mayor.

Mr. Frank. Mr. Facemyer. Can we see Mr. Facemyer’s letter?

Mr. Manafort. I understand the note, which was confusing to me, and why I asked the question.

Mr. Frank. But you didn't ask about it during your phone call. When you had a chance to make phone calls, you got answers you thought would be useful, but you didn't get an answer about this one.

Mr. Manafort. I am going to provide you that information Congressman, because I got information in areas that I thought you were getting into, and I am just not totally prepared—

Mr. Frank. We got into this one pretty clearly. Mr. Facemyer's letter. We got into that one. Your understanding is that Mr. Cruse spoke to Mr. Facemyer, but you don't know when?

Mr. Manafort. I am going to get you those dates.

Mr. Frank. At what point did he do it? Do you have any approximate idea?

Mr. Manafort. No, I don't.

Mr. Frank. Do you think the firm retrospectively did a good job of talking to the mayor and the other people?

Mr. Manafort. Initially, our responsibility was not to talk to the local mayor. In hindsight, would I do that differently now? Yes.

Mr. Frank. Why wasn't it initially your responsibility? Your responsibility was to get the approvals and not worry about what the local response was?

Mr. Manafort. And to figure out the administrative process and to work within the administrative process.

Mr. Frank. And not to worry about the local people? How about meeting with the tenants, at the point meeting with the tenants? When was the first meeting of your group with the tenants?

Mr. Manafort. Where were some tenants meetings, I think, in the summer of 1987.

Mr. Frank. After the project was approved?

Mr. Manafort. To explain to them what we were going to be doing, yes, sir.

Mr. Frank. Were there any meetings with the tenants prior to project approvals?

Mr. Manafort. No, I do not believe there were.

Mr. Frank. So, all the meetings with the tenants were to tell the tenants what was going to happen to them. Did your firm—you said—

Mr. Manafort. One of the problems that I can't articulate is you can't understand the disrepair of the units. If you had walked through these units—

Mr. Frank. One, I don't know why you can't articulate it.
Mr. Manafort. When you said did we talk to the tenants about whether the project needed to be rehabed?

Mr. Frank. Not just whether it needed to be rehabilitated, but what kind of rehab, what kind of amenities—there are a lot of reasons you might want to talk to the tenants. As far as you not being able to articulate it—

Mr. Manafort. I can provide the committee, sir, with some pictures, for example, of before-and-afters which will give you a sense of—if you just walk through——

Mr. Frank. There you go again with questions I haven't asked. I wasn't talking about the quality of the construction.

Mr. Manafort. The project?

Mr. Frank. No, I asked you whether or not you talked to the tenants. Some of us believe that local people, even local people living in a building that is not too terrific, ought to get some input into these things beforehand, and the notion—I object to the notion these people were simply, you were going to assume this was the best thing for them, and it also goes to the question of merit.

If you were really doing a merit assessment of this project versus others, it seems to me one of the things you would do would be to talk to the tenants.

Let me just ask my next question, next to the last set.

Were there other projects in the area surveyed? You said you thought this was a project of merit, because there was a housing shortage there. Did you look at other potential units in the area that might have been suitable?

Mr. Manafort. Other units to purchase, you mean, or that existed in the area?

Mr. Frank. That could have been done. Or did the public housing authority do a survey?

Mr. Manafort. Yes, to my knowledge, they did.

Mr. Frank. Of the whole area?

Mr. Manafort. Of the area, yes, sir.

Mr. Frank. Do you know they did that? Can we get a copy of that, do you know? Or if we asked them, could we get a copy?

Mr. Manafort. Sure, I will try to get you a copy.

Mr. Frank. Let me ask about Deborah Dean. Your first connection with HUD was to go through, was for Mr. Gay to go to Ms. Dean?

Mr. Manafort. Yes.

Mr. Frank. Does it strike you as a reasonable way to proceed, that the Executive Assistant to the Secretary should be the initial contact point on applications? Does that—I mean, do you think Ms. Dean had in her head enough knowledge of everything so that she could give you a general sense of it? You said she asked you two questions:

Did the public housing authority approve it when they applied? Is that a good way to run an agency, the Executive Assistant to the Secretary deals with these things at this level? There is no regional input, etc., at that point?

Mr. Manafort. It is my feeling, Congressman, in town here, it is not unusual for the Chief of Staff——
Mr. Frank. I didn't ask you if it was unusual. See, we seem to have this language problem. I did not ask you if it was unusual. Is this the right way to run a department?

Mr. Manafort. The Chief of Staff knows what is going on most often.

Mr. Frank. And gets the initial applications on a project-by-project basis?

Mr. Manafort. As I indicated, Mr. Gay, after the meeting, asked her about the prospects, and at that point in time, I don't know that we felt that she could singularly make the decision, but we felt she would know—

Mr. Frank. So she said these things. Based on that, you had a meeting with Ms. Dean, you then had the former Chief of Staff to the Governor set up a meeting with the Commissioner. Had this Commissioner been in charge when this man was Chief of Staff?

Mr. Manafort. I don't know that.

Mr. Frank. I would like to see if we can find that out. The former Chief of Staff of the Governor, who is still the Governor, goes and sees the Governor's appointee, the head of Community Affairs, and he says, can they see you? A week later, they send in an application, and a couple months later you buy the property before the public housing authority has even been told that it has got the money, much less that you are going to get it.

That is why nobody really believes that merit has much to do with it. That seems to be such a wildly improbable set of circumstances on any other hypothesis than that the political influence that you were able to bring to bear resulted—do you really think that is not true, your political influence was not a factor?

Mr. Manafort. I didn't say that. But what I said—

Mr. Frank. Was it the major factor, in your judgment?

Mr. Manafort. I believe that the project—and I will leave with the committee some pictures of it, before and after, so you can see the quality of the work as well as the condition of the units when we purchased them, there clearly was a need for it within HUD's regulations as far as the decentralizing—

Mr. Frank. What comparative basis did you have for that?

Mr. Manafort. Congressman, if you just—

Mr. Frank. You can't do that by walking through the one project, you have to walk through others. Your notion that by looking at one dilapidated building, you can decide this is the most meritorious when there were very few things to give out, is just nonsense.

Mr. Manafort. But, I guess what I haven't clearly articulated is that Mr. Cruse had a considerable knowledge in the public housing area. He had been the Deputy Commissioner of Housing. He understood not just by virtue of visually, but also by his previous experience, the mechanics of what made a project merit-worthy. He analyzed this project. That is what I tried to say.

Mr. Frank. But he was not the public housing authority at that point. The amount of time—the point I am making is this: it does not seem on the timetable you have agreed took place, that either HUD or the public housing authority really had a chance to do the kind of comparative basis people think.
Let me ask you, how much of a factor do you think your political influence, you and your colleagues, was in getting this approved?

Mr. MANAFORT. I think that we were an important role in the process.

Mr. FRANK. Me too. Thank you, Mr. Chairman.

Mr. LANTOS. Congressman Lukens.

Mr. LUKENS. Thank you, Mr. Chairman.

Do you think you will involve yourselves in any more housing projects in the near future?

Mr. MANAFORT. To be honest with you, yes.

Mr. LUKENS. Why?

Mr. MANAFORT. Because if we find merit-worthy projects, we will work as we did in this one, within the system, and we will develop them.

Mr. LUKENS. Let me ask you about a couple of points. I hope the committee has not already covered this area, Mr. Chairman. But I want to know a little bit more about the structure in the first place. You are one-third owner of——

Mr. MANAFORT. Of a partner in the joint venture.

Mr. LUKENS. What is that partner's name?

Mr. MANAFORT. CFM Development Corp.

Mr. LUKENS. Who are the owners of the other two-thirds? CDC is one?

Mr. MANAFORT. No. The CFM Development Corp., of which Mr. Cruse, Mr. Fox, and Mr. Manafort are one-third partners, and our partner in this joint venture for this project is CDC Financial Corp.

Mr. LUKENS. You were the lead for CFM in conjunction with this project?

Mr. MANAFORT. No, Mr. Cruse was the lead, was the project coordinator on it. He was the one with the experience in the housing field, and he was the one who had the project brought to him, who analyzed the project and determined its merit-worthiness, and he has been the person dealing with the local community leaders in the course of the project.

Mr. LUKENS. Simply put, your job was to procure or acquire the rent subsidy allocation?

Mr. MANAFORT. No. Black, Manafort, Stone & Kelly? Black, Manafort, Stone & Kelly's role included dealing with the Department of HUD, included dealing with the administrative process, and has been an administrative arm of the whole project. That is the considerable time we have put in in this project.

Mr. LUKENS. Were you paid from more than one source for this project?

Mr. MANAFORT. No.

Mr. LUKENS. You already testified basically you had no housing experience, but your partners did. So, you are relying on Cruse for his analysis——

Mr. MANAFORT. And CDC Financial Corp.

Mr. LUKENS. CDC Financial Corp. has substantial experience in the area of housing financing?

Mr. MANAFORT. A lot, yes.

Mr. LUKENS. Obviously, you knew you were working in a system, and you were working the system. Everybody here understands
there is a system out there and people take advantage of it. For better or worse, it is what has been done to the housing program.

Did you believe anything you did at the time or have done now, listening to the tone of the questions, the route we are going, was improper or illegal or questionable?

Mr. MANAFORT. I believe we worked within the system that existed, sir. I don't think we did anything improper, illegal or whatever the last one was.

Mr. LUKENS. If you were to tighten the system so there would be a fair share reimposed, I know you are familiar with fair share now, or a comparative system reimposed, at what juncture in this process would you do that?

Where would you cut off the so-called influence peddling this body seems to find so repugnant and really leaves a lot of questions?

Mr. MANAFORT. I don't know that I can answer that question. As I understand it, the whole discretionary program was put in place as a discretionary program, because there was an inability to make some of those judgments. Whether that inability was perceived or real, I don't know, and I will be very interested in following the deliberations of this committee as to what you conclude.

Mr. LUKENS. If your partnerships had to go before a review board at the highest level of HUD to get permission, rather than one person like Deborah Dean, would you still follow through this program?

Mr. MANAFORT. We would have followed whatever the procedure was that was in place at the time, because we would not want to work outside appropriate procedure. We felt comfortable doing that again, because we thought the project was merit-worthy.

Mr. LUKENS. In all candor, once HUD made the allocation of funds to the PHA, weren't you relatively sure that you were in line to pick up that contract, this specific project?

Mr. MANAFORT. We felt comfortable, but we didn't have any assurance, I mean any guarantee.

Mr. LUKENS. I am troubled by one area a couple people already mentioned it, and I want to go back to it. You did invest $4.4 million before you had received any assurance that you were going to pick up the project?

Mr. MANAFORT. And that was the period of time we were at risk, Congressman.

Mr. LUKENS. That is a great deal of risk. Most of us do not deal with millions and I understand that. CDC is so comfortable with that kind of money and that is not the biggest project they ever had, I am sure. I do not know how large an amount of funding you have encountered before in these projects, but $4.4 million stuns most people because it is just a lot of money to it.

Mr. MANAFORT. That is where there was confidence in the meritworthiness of the project, that the project would ultimately be funded.

We felt very comfortable that this project, on its own, could qualify.

Mr. LUKENS. How many hours have you or others put in representing Black, Stone, Manafort & Kelly?

Mr. MANAFORT. In the totality of this project?
MR. LUKENS. Yes.
MR. MANAFORT. Upwards of 300 hours.
MR. LUKENS. Do you keep track of those hours?
MR. MANAFORT. We have been able to try to build that in in
hindsight from looking at the number of trips and things like that,
persons were involved in in the meetings. It is ongoing, including, as
I indicated earlier, it will continue until the project is completed.
That was our understanding at the time, and it has been our per-
formance.
MR. LUKENS. Percentagewise, how far along is that project now?
MR. MANAFORT. We expect that it will be concluded in the fall of
this year.
MR. LUKENS. Do you anticipate any difficulties?
MR. MANAFORT. About October, it will be about a three-year pro-
gram. We will have been involved as Black, Manafort, Stone &
Kelly about three years.
MR. LUKENS. Has the scope or purpose of the project changed any
in the time from when you initially bid for it, and have begun work
on it?
MR. MANAFORT. There have been some complications; one I allud-
ed to earlier. We found asbestos, which required a tenant reloca-
tion plan that was not anticipated, which is one of the reasons why
the project has gone a bit beyond what we expected, and we had to
deal with the asbestos problem, therefore a tenant reallocation
problem.
There have been a number of—well, that has been the principal
one. There have been other construction problems we've encoun-
tered that we've dealt with. I wouldn't call the others out of the
normal.
MR. LUKENS. I would like to go over, again, the question of the
apparent lack of concern for the local officials, both from HUD's
standpoint and more specifically now from your standpoint as a de-
veloper in the project. I can understand moving into a small com-
munity or smaller community and not really establishing good con-
tact and developing a real rapport with the local officials. Know-
ing, in the final analysis, they utilize the local weaponry of a small
community, including zoning to say this is the kind of unit we will
have.
It bothers me a little bit that a project of this size was put into a
community so small, because the impact is so large. Could you just
comment on that aspect of it?
MR. MANAFORT. Yes. We have worked, and there have been con-
siderable meetings—I have not seen the minutes and all that were
distributed as part of the mayor's statement, but they are probably
considerable, because there have been a lot of meetings, and there
has been a lot of contact and cooperation working with the local
township.
I mean, I don't know that the mayor said that it has been an ad-
versarial relationship. In fact, it has been relatively positive.
MR. LUKENS. I do not think he said that, from my interpretation
of his comments. My understanding of the situation is it was not
until they applied a little pressure and slowed down the project,
that anyone paid any attention to them.
Mr. MANAFORT. I guess I might quibble a bit with that. There was a change in the code, which happened as our project was coming on stream.

Mr. LUKENS. The local housing code?

Mr. MANAFORT. That is right. And there was a change in the code, and we worked—we have worked with the local township to change orders. There have been about 33 change orders, and we have worked with them. We have absorbed costs for the local community we didn’t have to absorb. For example, on this grant that they were talking about, we are paying partially the technical consultant fee out of our own proceeds.

We don’t have to do that. We have worked with them, with the local engineers on some of the changes. They have made some very meritorious suggestions, and we have tried to accommodate them. And in the process, the project is better, I agree, but it has not been an adversarial relationship.

Mr. LUKENS. Did you have difficulty acquiring certificates of occupancy and, for edification of the committee, please define certificates of occupancy?

Mr. MANAFORT. A certificate of occupancy is the local township acknowledging that we have met all of the code specifications and that the units can be turned over for occupancy. So, in other words, we can’t move a new tenant into a rehabbed unit until we have what is called a C.O. And we have gotten a number, I don’t know how many buildings now have been C.O.ed, but a considerable number, and will be on-stream to be finished in October or November.

Mr. LUKENS. Have you ever personally visited the site?

Mr. MANAFORT. I personally haven’t, but as I said, my partner, who has been the action officer, has been there many times, and people at Black, Manafort, Stone who have been involved on a daily basis have been there on a number of occasions.

Mr. LUKENS. Thank you, Mr. Chairman.

Mr. LANTOS. Congressman Weiss.

Mr. WEISS. Thank you, Mr. Chairman.

Mr. Manafort, what I would like to do, in some instances at least, is to try to clarify the record because you have been under questioning for some period of time, and I think that, quite naturally, because of the many questions you were asked, some of the responses you have given to some of the questions seem to be on both sides of an issue.

I will see if we can try to clarify——

Mr. MANAFORT. If there are any others we may have missed, I will be glad to try to clarify the transcript.

Mr. WEISS. For starters, I thought that you said in your opening statement that the Black, Manafort fee of $326,000 was in fact based on what had been referred to as the “going price.” Did you say that in the course of your opening statement?

Mr. MANAFORT. Yes, I did. It was on what we viewed as the market determination. We picked the lower end of the range.

Mr. WEISS. So that, in fact, that was the basis on which you arrived at the $326,000 figure.
Mr. MANAFORT. At the fee, but not at the scope of work. That was the basis upon which we determined the fee but not the scope of work.

Mr. WEISS. But again, at the time that you started, you had no idea as to the amount of time that it would take, isn’t that correct?

Mr. MANAFORT. That is correct.

Mr. WEISS. The basis for it was $1,000 per unit, correct?

Mr. MANAFORT. No, that is the point, Congressman. The scope of work was—

Mr. WEISS. You are beginning to contradict what you said to me.

Mr. MANAFORT. No, I am expanding on it.

Mr. WEISS. Do you find a correlation between the fact that there were 326 units and Black, Manafort charged $326,000? Is there a correlation between those two—

Mr. MANAFORT. That was the peg on which we determined the fee, but not the scope of work.

Mr. WEISS. The peg for the dollars that you would get was at the rate of $1,000 per unit, isn’t that correct?

Mr. MANAFORT. Technically yes, but—

Mr. WEISS. Thank you. So that all of this about the scope of work, whether it was 1,000 hours or 30 hours, was in a sense irrelevant because you had made the determination, or your company did, that the fee was going to be $1,000 per unit.

Mr. MANAFORT. No, sir, that is not correct. That is the point I am trying to make to you—

Mr. WEISS. At what point would you have reduced the fee if in fact it turned out that it did not require the 300 hours?

Mr. MANAFORT. This may be part of the difference between your understanding of the marketplace in the whole area, Congressman. All I am saying is—

Mr. WEISS. It is even more complicated than that. You are here under oath. The reason that you are under oath is so that we can have a sense of the validity of your testimony. I think you ought to be very, very careful about responses that you give which tend to be on all sides of an issue.

Now, again, there is no correlation between the $326,000 that was the fee and the 326 units in this project, is that what you are telling us?

Mr. MANAFORT. What I am saying—

Mr. WEISS. Is that what you are telling us?

Mr. MANAFORT. No, Congressman, if you would let me finish—

Mr. WEISS. The reason you charged $326,000 was because there were 326 units; isn’t that correct?

Mr. MANAFORT. We could have charged double that, according to the market rate.

Mr. WEISS. But the fact is you pegged it at $1,000 per unit. Isn’t that correct?

Mr. MANAFORT. We pegged it to that but that was not defining the work responsibility. I cannot agree with you, I am sorry you are not letting me answer.

Mr. WEISS. You are taking great pains to try to separate yourself out from Mr. Watt’s approach to the deal. And Mr. Watt’s approach was that he charged $500,000 or $169,000 depending on how you are counting the fee he received, and he said the going rate
was somewhere between $1,000 and $1,500 or $2,000 per unit. You say you did not do that, when in fact that is exactly what you did. Isn't that correct?

Mr. MANAFORT. We pegged the fee to that, but we did not define our work responsibility to simply providing the units. That's all I'm saying.

Mr. WEISS. Mr. Watt didn't say he was only going to get three telephone calls, either.

Mr. MANAFORT. I'm not going to talk about Mr. Watt's testimony, sir, because I didn't see it.

Mr. WEISS. OK. Let's go to another clarification: I don't know if you heard the mayor's and housing officer's testimony with regard to the request for additional funding, because the asbestos work necessitated moving people out, and delay of work, did you hear that?

Mr. MANAFORT. I don't recall hearing that part.

Mr. WEISS. Did you, in fact, in the course of your testimony, assume you assumed additional costs because of the asbestos insulation?

Mr. MANAFORT. We have absorbed extra costs. That is correct.

Mr. WEISS. When did you become first aware of the fact that there was an asbestos insulation problem?

Mr. MANAFORT. After we started on the rehab of the project.

Mr. WEISS. Again, you are probably not old enough to remember the days when asbestos was considered to be the magic element, and the asbestos manufacturing companies were selling it, and people were buying it on the basis that this was the best thing going.

You could not miss the pipe insulation where asbestos was used. Nobody could miss it. It is a wrap-around on the pipes. You said it was the heating pipes, correct?

Mr. MANAFORT. I didn't say that. I don't know that for a fact.

Mr. WEISS. You don't know where it was?

Mr. MANAFORT. No, I do not.

Mr. WEISS. Did you hear the mayor say that?

Mr. MANAFORT. I didn't hear that part of the testimony, or I don't recall hearing it.

Mr. WEISS. Would it surprise you if, in fact, the mayor and housing officer testified that the asbestos existence was something known to the developer as of the fall of 1987?

Mr. MANAFORT. When we started the rehabilitation is when we discovered the asbestos.

Mr. WEISS. When did you start the rehabilitation?

Mr. MANAFORT. I guess it would have been approximately in December 1987.

Mr. WEISS. So that when you have a letter from your company dated December 1988, December 17, 1988, which says that the need for additional credit allocation is mainly the first result of two conditions: first, as we previously reported, asbestos containing material in the form of pipe insulation was discovered on the project site, that is not a recent discovery as of December 17, 1988, correct?

Mr. MANAFORT. I think that is correct, sir.

Mr. WEISS. You would have to have known or your partner would have known about that very early on.

Mr. MANAFORT. I am talking about a year earlier, Congressman.
Mr. Weiss. The project was only approved in 1987.
Mr. MANAFORT. When we started the rehab was when we discovered the asbestos.
Mr. Weiss. Before you made a purchase, did somebody from your company go through the site and look at all the problems and all the things you would have to deal with?
Mr. MANAFORT. Yes, sir.
Mr. Weiss. Was there not a listing at that time of asbestos as one of the problems?
Mr. MANAFORT. No. As I am aware of, there was not.
Mr. Weiss. Would you check that for us?
Mr. MANAFORT. Absolutely.
Mr. Weiss. Another point of clarification. This is in the advertisement. I want to get past the question of what was intended by the project had to be located in the city of Seabrook. Assume for the purpose of this question that in fact, you meant Upper Deerfield Township. Would you think that is what was meant?
Mr. MANAFORT. I assume so.
Mrs. ROUKEMA. If you will yield, I know there is a misunderstanding. The misunderstanding here is with respect to the Upper Deerfield Township-Seabrook, NJ. Let me explain something which the mayor could confirm. We should not make too much of that. There are sections of townships that are known by a local name. In this case, Seabrook is a subdivision known locally as Seabrook, but it is incorporated as part of Upper Deerfield Township.
Mr. Weiss. I appreciate that clarification.
Mrs. ROUKEMA. It is for accuracy's sake.
Mr. Weiss. It says it must be located in the city of Seabrook.
Mrs. ROUKEMA. "City" is a misnomer, but people in that area of Cumberland County knew exactly what was meant.
Mr. LANTOS. We are grateful for the clarification from our colleague from New Jersey, but that makes the advertisement even more phoney.
Mrs. ROUKEMA. That is true.
Mr. LANTOS. That delineates the arena where the project must have 100 units to a subsection of a small town, which makes the competitive bidding notion wholly absurd.
Mrs. ROUKEMA. I don't take exception to that, but I think some interpreted that as a discrepancy that the people did not know which town they were advertising in. That is the only reason I point that out. But you are absolutely correct, it clearly defines a very precise subdivision and a very narrow location.
Mr. LANTOS. Since the mayor testifies that the 326 units is 16 percent of the housing stock of the whole community, if you take a small section of it and you advertise a project that must have 100 units in that section, I am willing to bet dollars for donuts that this is the only project that could have qualified.
We will ascertain from the mayor whether or not that is so. We are grateful for your clarification. I thank you for yielding.
Mr. Weiss. Your comment really underscores the whole point. Let me for the moment disregard the confusion regarding Seabrook and go on to the rest of the advertisement. It starts off saying, "All projects must contain at least 100 units and must be located in the City of Seabrook."
“All funding decisions were made by the agency,” that is the Department of Community Affairs, Division of Housing and Development, Bureau of Housing Services, “based on the financial feasibility of each proposal and the following criteria,” so that it not only has to be at least 100 units in the city of wherever, but it also has to meet the following criteria. “(1) Projects with applications previously submitted, but not funded by previous awards.”

Now, do you know of any other projects with applications previously submitted but not funded by previous awards within either Upper Deerfield Township or its Seabrook Subdivision?

Mr. MANAFORT. No, I do not.

Mr. WEISS. “(2) feasible projects providing the greatest dollar amount of rehabilitation per unit.” What does that mean, to your understanding?

Mr. MANAFORT. I am giving you my present knowledge. What you just said is that the total amount of rehab per unit would be an important criteria.

Mr. WEISS. The most expensive?

Mr. MANAFORT. No. In other words, if you were going to put in $1,000 per unit or $2,000 per unit, you would be given preference by putting in more rehab money.

Mr. WEISS. Right. Okay. “(3) projects involving abandoned or foreclosed buildings.” Now, do you know of any other project in Upper Deerfield or the Seabrook Subdivision which had abandoned or foreclosed buildings besides the one that you purchased?

Mr. MANAFORT. I don’t know of any.

Mr. WEISS. “(4) projects whose unit size distribution most closely matches the agency’s funding authorization.”

Mr. MANAFORT. I don’t understand that.

Mr. WEISS. As I read the funding authorization is for 326 units. You have it. You are the only one who can meet that criteria unless by some magic there is another project meeting that criteria, which also has exactly 326 units.

“(5) Projects with shortest time period for rehabilitation, and (6) Date of receipt on proposal by the agency.” When you put that together, the suggestion that there was any kind of risk involved seems pretty far-fetched. As the chairman said, there is no other project except the one that you had that could possibly meet all those various criteria, isn’t that correct?

Mr. MANAFORT. That could be construed, yes.

Mr. WEISS. That is the answer that I wanted.

Another area of confusion, you said Mr. Cruse had heard about the building, the site, from another developer.

Mr. MANAFORT. That is correct.

Mr. WEISS. Can you tell us, for the record, the name of the developer from whom Mr. Cruse got this information?

Mr. MANAFORT. I don’t remember, but I will get that for you.

Mr. WEISS. And can you tell us when Mr. Cruse received that information?

Mr. MANAFORT. It was in September or October. I will try to get you the specific date.

Mr. WEISS. September or October of what?

Mr. MANAFORT. Probably 1986.
Mr. Weiss. Having gotten that information, he then went out to look at the site; is that the first thing that he did?
Mr. Manafort. That is my understanding. When I say, "the first thing he did," I don't know what the first thing he did was but he did, before we proceeded, he did go down there, look at the site, analyze the site and make a determination that was merit-worthy.
Mr. Weiss. When would that have taken place?
Mr. Manafort. That is the date I will have to supply to the committee.
Mr. Weiss. Having gone on his visit to the site, you also said in the course of your testimony that you think, or you believe, or you understand that he spoke to somebody or some people, with some agency or another in the State of New Jersey. Which agency and with whom?
Mr. Manafort. This is what I will have to get for you. I believe it is the public housing authority to determine if they viewed this project as a project that could qualify and what experience they had with it.
Mr. Weiss. Do you know whether or not this conversation took place with Mr. Connolly?
Mr. Manafort. No, it would not have taken place with Mr. Connolly.
Mr. Weiss. All right, so you know whom it did not take place with. Whom did it take place with?
Mr. Manafort. I will have to get the name. This would have been at the technical level in the Office in Trenton. I don't know the answer, but I will provide it, sir.
Mr. Weiss. In response to Mr. Frank's questions, and this is where the confusion comes in, you had said Mr. Gay had been at a meeting with Ms. Dean on some other matter, and in the course of it, it occurred to him to ask her about the property in Upper Deerfield.
Is that roughly your testimony?
Mr. Manafort. The meeting was not set up for this purpose, but it was not a coincidence that it was raised.
Mr. Weiss. He went with the purpose of asking some things.
Mr. Manafort. The meeting was set up for a different purpose, but he had intended on inquiring on this point.
Mr. Weiss. After he got what in essence was a positive response as to what he ought to be doing, he was asked a couple of questions, and one of the questions was, was an application filed by the public housing agency; and the second was whether the public housing agency was supportive of it. You said those were the two questions.
Mr. Manafort. That is right.
Mr. Weiss. You said that the answer was the application had been filed, but he said the public housing agency looked with favor upon this project. But it was after that conversation, you testified, that Mr. Stevens arranged a meeting which took place with Mr. Connolly.
Mr. Manafort. That was a different meeting, sir.
Mr. Weiss. That is what I am trying to ascertain. The record stands in a very confused state.
Mr. Manafort. Let me try to clarify that. When Mr. Cruse analyzed the project and had the contact with the public housing authority at the technical level, that is where the comment about merit-worthiness comes from. The meeting with Mr. Connolly occurred after the meeting with Ms. Dean; in other words, after the 14th, but prior to the 20th of November. The purpose of that discussion was to submit an application.

Mr. Weiss. Again, we know who Mr. Connolly was and we know that Mr. Connolly said in the quotation that was referred to in the Wall Street Journal that he was told to make the application, and that he would get an approval, and he says, "And lo and behold, they were approved. Obviously, we raised our eyebrows."

Now, that does not sound to the interested or casual reader like a situation where the Director of the Division of Housing had given any indication, or anybody in his agency, about the merit-worthiness of this project. He says that he was told by a representative of your firm, make the application, and it is going to be approved, and they do it, and lo and behold, it happens.

That is the scenario set forth in here now. Are you now disputing that conversation?

Mr. Manafort. No, because Mr. Connolly is not the only person at the public housing authority. I am not trying to imply that at all. I am not trying to say that at all.

Mr. Weiss. Did you know whether, in fact, in the course of that first meeting with Mr. Connolly that was arranged by Mr. Stevens, there was a discussion of the earlier discussions that Mr. Cruse had had with other people within the public housing agency?

Mr. Manafort. I don't know that, sir, because I was not in that meeting.

Mr. Weiss. Would you get that information for us?

Let me ask you about the cost of this project, the purchase price for the property. I would assume that someone as involved in real estate as Mr. Cruse was would have gotten some idea of what the assessed valuation of this property was before you began negotiations; that is, your company began negotiations with the owner of the property.

Do you know whether he checked or asked for the assessed valuation of the property?

Mr. Manafort. We felt that the appraisal value, the assessed value, which I believe it was an old assessment, was not accurate. We felt also that in a Moderate Rehab Program, that the value of the property would far exceed the purchase price.

Mr. Weiss. Those are two separate answers, and let me try to explore both of those. I don't know if you heard the mayor testify that the assessed value was something like $2.9 million, and he said, "My recollection is that the ratio to real value was something like 93.7 percent."

Mr. Manafort. I read that.

Mr. Weiss. He did not say that was an out-of-date assessment. And given the condition of that property, I am not sure that you could draw the conclusion that that was undervalued. That probably was worth maybe $3.2 million, but you all paid $4.4 million for it; isn't that correct?
Mr. MANAFORT. We made a business judgment. We certainly tried to negotiate the price down, but that was the best price we could get. We made a business judgment that that price would make the project work. When we analyzed what mod rehab would give to the value of the project, we determined that the purchase price could sustain the ultimate value of the project, certainly for permanent financing purposes.

Mr. WEISS. What was the original price that they asked?
Mr. MANAFORT. I don’t remember.

Mr. WEISS. Your records will substantiate it? If they were asking $5 or $6 million, and you brought them down to $4.49 million, your records will reflect that?
Mr. MANAFORT. I will check the records of the negotiations.

Mr. WEISS. The second part of the answer is that, it didn’t make any difference to you at that point, because you would more than recoup it with the Moderate Rehab Program, correct?
Mr. MANAFORT. Recoup is the wrong word.
Mr. WEISS. Use your own word.
Mr. MANAFORT. What we determined was that permanent financing in a Moderate Rehab Program could carry that purchase cost.
Mr. WEISS. So, it was irrelevant if you were taken for an extra million dollars?
Mr. MANAFORT. Of course it was relevant to us. The lower we could get the purchase price, the more rehab we could put into the project.

Mr. WEISS. What was the initial offering price?
Mr. MANAFORT. I’ll have to get that information. We were looking to put the maximum amount of rehab in the project to improve the quality of the project.

Mr. WEISS. Mr. Lukens asked you whether you were receiving funding from various sources, and you said no. Let me see if we can get some clarification of that. CFM, of which you were a partner, one of the three principals in CFM, was entitled over a period of some seven years, to something approximating $920,000; can you give me the exact dollar figure?
Mr. MANAFORT. I believe $921,500 would be the syndicated proceeds over the seven year period.

Mr. WEISS. You would be receiving a one-third portion of that. Is that correct?
Mr. MANAFORT. Me personally.
Mr. WEISS. Yes.

Mr. MANAFORT. No, I would get one-third of CFM’s portion.
Mr. WEISS. Their portion was 50 percent?
Mr. MANAFORT. Sixty percent.

Mr. WEISS. Sixty percent. Then, in addition to that, you are a principal of Black, Manafort, correct?
Mr. MANAFORT. Correct.

Mr. WEISS. Of the $326,000, you would receive a portion of that, correct?
Mr. MANAFORT. No. I did not receive any money at Black, Manafort in salary or compensation based on the Seabrook project. That went into the funding of the general company. The point is it is part of the revenues of the firm.

Mr. WEISS. You get paid out of the general revenues, right?
Mr. MANAFORT. Yes, but what I am saying—
Mr. WEISS. If you did not have fees, you would not get any sala-
ries, correct?
Mr. MANAFORT. Yes, but we are a profit-making company.
Mr. WEISS. You bet you are. $326,000, more or less, whether it is
over one or two or three years, it is 320 hours, in fact goes into the
general gross income pool, out of which your net profits come and
your salary is paid, correct?
Mr. MANAFORT. That is true.
Mr. WEISS. So, you are receiving moneys in this situation from at
least two sources, your partnership in CFM and, secondly, your
partnership in Black, Manafort.
Mr. MANAFORT. Me personally?
Mr. WEISS. Yes, you personally.
Mr. MANAFORT. Yes, you could make that case.
Mr. WEISS. One other loose end I had——
Mr. MANAFORT. My understanding of what Congressman Lukens
was getting at was, did Black, Manafort, Stone & Kelly get any
other fees other than the $326,000? That is how I understood his
question. My answer to that was no.
Mr. WEISS. The question was you and I assume he was talking to
you.
Mr. MANAFORT. Well, I guess I interpreted that as Black, Kelly,
Manafort, and Stone.
Mr. WEISS. Well, I am glad we clarified it. You mentioned in
your opening statement that this particular piece of property had
previously been granted a 100-unit certificate. Is that correct?
Mr. MANAFORT. There is a 100-unit Section 8 certificate that had
already been attached to that project. That is correct.
Mr. WEISS. To that particular piece of property.
Mr. MANAFORT. Project. The previous owner, I don’t know what
the process was, and I don’t understand the Section 8 certificate
program, but that was a factor, in determining that HUD had sanc-
tioned this project as one that was merit-worthy.
Mr. WEISS. So, if that is so, isn’t it likely that the prior owner
found his way to Mr. Cruse to say, we have a live project here?
Mr. MANAFORT. No. There was another developer, and I will get
you his name. The initial contact did not go from the then-present
owner to Mr. Cruse.
Mr. WEISS. And the final question: Was it someone from within
HUD who gave you the information or any of the firms the infor-
mation this piece of which had a 100-unit Section 8 allotted to it?
Mr. MANAFORT. It is my understanding it was a developer, sir,
and I will get you his name. A developer could not be a part of
HUD.
Mr. WEISS. That is what I am asking you.
Mr. MANAFORT. I don’t know the individual’s name, that is why I
am going to get it to you, but it was a developer——
Mr. WEISS. You are certain it was not someone in HUD who gave
you that information?
Mr. MANAFORT. I feel very comfortable in saying that.
Mr. WEISS. Or someone who had previously been associated with
HUD?
Mr. MANAFORT. I don't know who the developer is. So I can't say that.

Mr. WEISS. So it could have been someone previously associated with HUD?

Mr. MANAFORT. I don't know that answer, sir, but I will get it to you. It was my understanding it was a private developer, and he was not interested in purchasing the project, and Mr. Cruse then looked at it.

Mr. WEISS. How long ago had he stopped being interested, do you know?

Mr. MANAFORT. I don't know. I don't know any of the facts——

Mr. WEISS. How long prior was the prior owner granted the 100-unit certificate?

Mr. MANAFORT. I don't know that.

Mr. WEISS. Thank you very much.

Mr. LANTOS. Thank you very much.

Congresswoman Roukema.

Mrs. ROUKEMA. Mr. Chairman, with respect to the requirement for public notice, the only thing that I wanted to add is, having looked up the HUD requirements, and in conjunction with what we now know about the lack of lead time or the short lead time of a few days, a few short days, for that public notice, it seems very apparent that statutory language and the regulations that are attendant to it are very deficient in terms of specifying what kind of notification is given.

There are obvious loopholes; to name just one is the lead time, but there are other apparent loopholes that might invite abuse if one is so inclined.

So, I think this testimony today has been very instructive in that regard, and I shall be happy to look into this further, along with the committee staff, if you will, to see what improvements we could make there.

I have two specific questions, and I will try to keep this very brief, because I think we are belaboring perhaps some of the points here, but I was out of the room, Mr. Manafort, when you made your presentation regarding what you learned about the tenants over the phone, and I am not sure whether there were three tenants or whatever involved in whatever your statement was.

But this is contradictory completely to what the mayor stated previously, and I don't know if you have had a chance to address this. The mayor said that you were having difficulty in renting the rehabilitated units, and you are disputing his statement, that you do not have to advertise outside the community in order to get tenants; is that my understanding, you are disputing the mayor's testimony there?

Mr. MANAFORT. I guess I am. It is my understanding that, first of all, the public housing authority, not the developer, does the advertising. In other words, we don't have the authority at this stage, as I understand it——

Mrs. ROUKEMA. Where did you get your information from when you made your phone call?

Mr. MANAFORT. From Mr. Cruse. My comment—there are two parts here.
Mrs. Roukema. You really are—well, then, let me ask you this way, and you tell me what the two questions are. You are really not in a position to dispute the mayor's testimony that they have—that you have to advertise, that PHA has to advertise outside the catchment areas, so to speak, to get tenants. Your testimony is that you have a waiting list?

Mr. Manafor. It is my understanding in Cumberland County, as of September 1988, there was a waiting list of about 516. That is my understanding.

Mrs. Roukema. That is quite different than the statement you made earlier. Are you speaking about Cumberland County has a waiting list?

Mr. Manafor. Of 516. And as far as the dislocation, that is a different issue. And what I said was of the tenants of the project, when we purchased it and rehbabbed it, three people didn't qualify pursuant to the income test to stay in the project with a subsidy.

Mrs. Roukema. We will have to go back over that. I am happy for that clarification.

One other question. I don't know whether Mr. Demery has stated this under oath, but he has been widely quoted as referring to your firm and the relationship between your firm and Deborah Gore Dean as an indication that the project was clearly a political one.

Have you had an opportunity during your testimony here to either affirm or dispute that statement that has been widely attributed to Mr. Demery?

Mr. Manafor. That the project was a political project?

Mrs. Roukema. That Mr. Demery was informed by Ms. Gore Dean that, clearly, this project and other projects, but clearly this project had to be approved because it was clearly a political decision.

Mr. Manafor. I have no knowledge of where that statement was made. I don't even know that the statement was ever made, actually, or the basis for it.

Mrs. Roukema. I know, I can guarantee you Mr. Demery has made that assertion, both in testimony as well as in the public press, and I am asking you now if you dispute that statement of Mr. Demery's?

Mr. Manafor. That it was a political project?

Mrs. Roukema. Correct.

Mr. Manafor. That we were involved as a public relations firm in supporting that project, I don't dispute that at all. That the project was funded purely because we supported it, I guess I would say the project, I think that the project had merit-worthiness to it.

Mrs. Roukema. Mr. Chairman, I am not going to belabor the point any further. We could go into the rentals and the discrepancies here between what the rentals are in this project and what the mayor knows to be the case and what their own documentation indicates as the fair market value, I won't go into that, but I will simply say that I guess the only thing I come away with here today is the fact that we have underscored the necessity for Ms. Dean to come before this committee and testify as to what she knows.

She seems to be the linchpin here, both on the basis of Mr. Manafor's testimony and on the basis of other previous testimony that we have had. I think it is just self-evident and apparent as to what
has gone on here, whether in the Seabrook approval or in those others, that when Mr. Watt and the others have testified on the other projects, I think the pattern is perfectly apparent.

Mr. LANTOS. I want to thank my colleague for so patiently attending these hearings and making so many constructive contributions.

Let me just reassure her that the Chair will do his utmost to encourage Ms. Dean and her counsel to have her come before this committee and testify.

Before I call on Congressman Shays, did you visit this project before you bought it, Mr. Manafort?

Mr. MANAFORT. As I indicated earlier, I personally haven't, but my partners have spent many, many trips there.

Mr. LANTOS. But you have never?

Mr. MANAFORT. I have not.

Mr. LANTOS. Have you visited it since?

Mr. MANAFORT. No. I have never been to the site.

Mr. LANTOS. You have never been to the project.

Congressman Shays.

Mr. SHAYS. Mr. Manafort, you have been here a very long time, and I appreciate your being here. I just need to clarify the significance of whether you paid yourself $1,000 or $2,000 a unit, because my basic understanding is you owned a third of this project, or a portion of this project. How much did you own of this project?

Mr. MANAFORT. I owned one-third of CFM, which owns 60 percent of the project.

Mr. SHAYS. The bottom line is, though, that you also have this consulting firm, Black, Manafort, Stone & Kelly, and that is the firm that got the $1,000 per unit, the 326?

Mr. MANAFORT. $326,000.

Mr. SHAYS. So, in a sense, though, you could take the money as an owner, or you could take it as a member or a partnership. Obviously, in your partnership, that gets spread across all the partnership. Is that correct?

Mr. MANAFORT. It gets spread across the cost of operations, which would include our salaries.

Mr. SHAYS. One of the other things that confused me a great deal—you seemed to make a big deal out of the fact that the apartments were in a deplorable state. Why is that significant?

Mr. MANAFORT. It is significant when coupled with the fact there was a waiting list in the area, when coupled with the fact people were living there, in those units, and the purpose of the Moderate Rehab Program was, in our judgment, specifically to improve these kinds of situations.

Mr. SHAYS. But from the standpoint of the purchaser, the worst the building is the better buy you can get on the purchase, and it is my understanding the Mod Rehab Program, all the costs of rehabilitating the buildings are borne by the Government in the rents they allow you to charge the tenants; isn't that correct?

Mr. MANAFORT. My understanding is that the subsidy provides a stream of income that is the basis upon which a lender will provide funding to do the rehabilitation, and ultimately to get a permanent mortgage.
Mr. SHAYS. Let me ask you the question again though. Isn’t it true the whole basis for determination of rent is, at least according to the IG and others that—let me just read from page 19 of the definition of moderate rehabilitation. The MRP regulations are written guidelines, do not contain a dollar or scope limitation on rehabilitation costs allowed in the rental calculations. The whole rehabilitation costs are what is put in the calculation for rental.

Do you want to comment on that?

Mr. MANAFORT. I don’t know that I am technically knowledgeable to comment.

Mr. SHAYS. You may have spent $4 million in the project, and I don’t think you can pass that on in the rents.

Mr. MANAFORT. That is correct.

Mr. SHAYS. But all the rehabilitation you can, so obviously there is more rehabilitation, there is more cost involved, and if ultimately that can justify the market rental, then that gets borne in the rental costs, and I would hazard a pretty strong guess, considering the rental charges, that this rehabilitation cost was allowed, and you received it.

I understand your point about upgrading the building and making it better, and having not seen it before and after—I can’t comment—but I just want to make the point for the record that the rehabilitation costs, you should have gotten back in the rental agreements.

And I guess I would just conclude, in the course of my asking you some questions, I yielded a number of times, and I hope that it becomes evidently clear to you that I don’t think there was any risk on the part of your purchase. You are such an intelligent man and you are so successful and well-respected in Connecticut and other parts of this country for your capabilities, it just defies logic for me to have someone of your caliber come here and basically say you took a risk.

Because as I look at this, it was very clear you went to the State housing authority, you got them to award the project, you told them who to contact in Washington, you contacted the right people there, the right people signed the 185, and they sent it to the region, and then they sent it down locally. It was a small community.

There weren’t other projects there. Yours was the only show in town. I am tempted to say I would have liked to have bought into the project, but thank God I didn’t. But it was a sure thing.

You know, I think that system stinks, and I think you used the system, and I know hundreds of other people have done it as well, but I have to accept on the face of it that you knew you were dealing with a sure thing. You bought the building. And just like James Watt and all the others, you successfully concluded this project; knowing who to use and what people to contact which is regrettable the way the system works.

I am not justifying that. I am just making the point, a lot of people have made a lot of money with influence peddling in this city, and it is probably worse in HUD than elsewhere. We will start with HUD and work down the line.

Mr. MANAFORT. If I might just make one other point, yes, we did understand the system; yes, we worked within the system; yes, the
project was funded. We are doing rehabilitation. We believe that but for this rehabilitation, there would be no—this housing project would have had to close down. We have done a survey as recently as Friday in preparation for here to make sure the tenants were happier.

If there were problems, we were going to do this at the end of the project when we didn’t anticipate this kind of testimony, but we did a survey of the approximately 129 units that have been mod rehabbed, and have occupants, and we were able to reach 73 people on Friday.

They are extremely pleased with the project, they are extremely pleased with the rehab. They are extremely pleased with the service that the management company has provided, and I feel comfortable in saying to the committee members here that when the project is done, I would wish that you would come visit the site and talk to the tenants and see that we have done our utmost to make sure that the purpose of providing good, low-income housing has been met and will be managed in such a way that the committee members will be proud of the work that we have done.

Mr. Weiss. Will the gentleman yield?

Mr. Shays. I have finished my time.

Mr. Lantos. Congressman Weiss.

Mr. Weiss. Thank you very much, Mr. Chairman.

Mr. Manafort, there was a story, I guess two days ago, which indicated that the number of units that were able to be funded has gone down in the space of two years, I guess, from 15,000 to 3,000. Are you telling this committee that you, in fact, favor the increase in funding of low-income housing units and subsidized housing across the country?

Mr. Manafort. I see real value to the program, yes, sir.

Mr. Weiss. And did you, during the course of these past eight years, during the Reagan administration, express yourself publicly in opposition to the administration’s severe slashing of subsidized housing and low-income housing programs?

Mr. Manafort. No, sir.

Mr. Weiss. You are aware of the fact that HUD’s funding went down from something like $31 billion in 1981 to about $9—billion I am talking about, $31 billion, to about $9 billion today? You are aware of that?

Mr. Manafort. I am aware of that.

Mr. Shays. Would the gentleman yield?

Mr. Weiss. I would be pleased.

Mr. Shays. It is my understanding that in order for it to go down from $31 billion, the President obviously recommended and probably wanted even less, but Congress had to concur.

Mr. Weiss. No, no——

Mr. Shays. Is it not true, sir, Congress had to agree with that $9 billion appropriation? In other words, we are all in this together is my point, sir. I am a Republican and am happy to be a Republican, I am happy to blame this administration, but I have a very difficult time being silent when the fact is it takes the President and it also takes Congress to agree to an appropriation, and Congress agreed to $9 billion, regrettably. I know you were not on that side of Congress’ decision, and I know if you had your way, it would be more
than $31 billion, and I salute you for that, but I can’t have it all be on the administration.

Mr. Weiss. I am always pleased to yield to my friend, because he is courteous in yielding to other people as well, and I know he wouldn’t have been wanting that side, either, he would have been on my side of the issue.

But the question I have is to Mr. Manafort, who was a supporter of the Reagan administration, and the Reagan administration was hell bent on wiping out many of these programs, most especially the housing programs. I am asking him now that he is here before us, telling us what good things are able to be done through subsidized housing programs, whether it mattered when the administration was at us year after year after year successfully cutting back on these programs and persuading the majority of Congress to go along with him, if he expressed his concern for keeping these programs alive and funded, and of concern toward the people who needed that housing?

And the answer, I guess, from Mr. Manafort is no, you never spoke out in favor of subsidized low income housing during the Reagan administration years; is that correct?

Mr. Manafort. I never had a basis to be involved in the debate.

Mr. Weiss. You never did. I assume you supported basically the Reagan administration’s effort at cutting back on many domestic programs, including housing, isn’t that correct?

Mr. Manafort. By and large, I supported the operations and the programs of the Reagan administration. I should say, and part of this is tempered by the experience I have had in the last three years in this project, I see a real value for it—my partner, who I indicated lived for 14 years in a low-income project, is very conscious of it and has been very persuasive with me on the value, and I can see the difference we are making on just this one project, yes.

Mr. Weiss. It is always nice to have people acquire religion, but in the meantime, what has come out here in the course of testimony today, and the testimony that has been gathered under the chairmanship of Mr. Lantos is that there were people such as yourself who philosophically and ideologically opposed the program.

When you got your chance, you were grabbing with both hands, and you literally were grabbing with both hands in this program.

Thank you, Mr. Chairman.

Mr. Lantos. Thank you very much.

Mr. Manafort, we appreciate your appearance. Is it reasonable to ask you to submit in writing the answers to the questions that have been raised by a week from today?

Mr. Manafort. Yes, sir. And what I would like to do is communicate with your staff to make sure my list and their lists——

Mr. Lantos. We would be most happy to cooperate.

Is there any final statement you would like to make?

Mr. Manafort. Nothing more than to say, sir, that we feel that the project is merit-worthy, that we feel we worked within the system, and I understand what your deliberations are geared toward, and I don’t agree with them, and if I can be of any service, I would be anxious to do so.

Mr. Lantos. We appreciate this.
The next hearing of the subcommittee will be on Thursday, when the subcommittee will hear from a former Under Secretary of HUD, a former Assistant Secretary of HUD, and a former Special Assistant to Secretary Pierce.

The hearing is adjourned.

[Whereupon, at 2:50 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]
The Honorable Thomas Lantos  
Chairman, Subcommittee on Housing and Employment  
House Committee on Government Operations  
2157 Rayburn House Office Building  
Washington, D.C. 20515  

Dear Mr. Chairman:

The purpose of this letter is to respond to several requests that were made by Members of your Subcommittee to me during my testimony.

As you know, your staff indicated that I might wait to respond until receipt of the transcript. I received the transcript on June 30 and have been out of town until July 10. Thus, I am responding as quickly as possible.

Most of the information contained herein relates to the Seabrook transaction, which was the principal subject of my testimony. Indeed, having reviewed the transcript, I think it would be helpful for me to set out for the Subcommittee a chronology of the relevant events relating to the Seabrook
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transaction. There is considerable confusion evident in the transcript regarding the sequence of events in this transaction. I think this confusion was caused by several factors, including the mistaken use of dates by Members of the Subcommittee which, because of my confusion, I did not clarify during the course of my testimony, my own lack of direct knowledge or confusion regarding certain events, and my failure to fully understand, at the time, certain of the questions that were presented to me. This correspondence is designed to clarify certain facts, explain relevant points, and in the process complete the record.

The chronology of the Seabrook transaction as I understand it is as follows:

September 1986
Victor R. Cruse has a discussion with a New London, Connecticut developer named Joseph Piera regarding the Seabrook property. (Tr. at 4499, 4722, 4733)

Sept.-Oct. 1986
Mr. Cruse talks with the owner of the Seabrook project, visits the site, begins his due diligence. (See tr. at 3637.)

November 14, 1986
Mr. Gay raises the prospect of the project and funding with Deborah Dean. (Tr. at 2261, 3149, 3616, 4012.)
November 19, 1986  Meeting between Mr. Cruse, Mr. Stevens, and Mr. Ziegler of the New Jersey Department of Community Affairs, Division of Housing & Development, Bureau of Housing Services (hereinafter referred to as the "Public Housing Authority" or "PHA") to discuss the project, its meritworthiness, and the submission of an application. (Tr. at 2147, 3155, 4572.)

November 20, 1986  The PHA submits application to HUD. (Tr. at 2138, 2328, 3625.)

April 8, 1987  Joint Venture Agreement is signed between CFM and CDC Financial. This document sets forth the areas of responsibility of the two partners and the manner in which they will pursue purchase of the property.

April 24, 1987  HUD sends written notice of approval of program funding to the PHA. (Tr. at 2055, 2081.)

May 5, 1987  The architect for the Joint Venture, Myron Hackett, contacts Upper Deerfield Building Inspector, Mr. Froelich to obtain code information regarding rehabilitation of the Seabrook project.

May 18, 1987  The PHA advertisement appears in the Millville Daily. (Tr. at 2073, 3214.)

June 1, 1987  PHA grants a conditional award to the Joint Venture. (Tr. at 3254.)

September 8, 1987  The Joint Venture receives and signs proposed Agreement to enter into a Housing Assistance Payments Contract ("AHAP").
October 8, 1987  The AHAP is signed by the PHA.

October 26, 1987  The property is purchased and title is transferred to the Joint Venture.

November 30, 1987  The rehabilitation begins. (Tr. at 4379.)

Dec. 16, 1987 (apprx.)  Asbestos is discovered by the contractor. (Tr. at 4358, 4376, 4386, 4399.)

I hope that this recitation will clear up the confusion apparent during the hearing regarding when the property was actually purchased. The property was purchased on October 26, 1987, approximately six months after the notification by HUD to the PHA of the program funding and nearly five months after the award by the PHA to the Joint Venture. The April 8 date, mistakenly referenced as April 9 throughout the hearing and incorrectly cited in several instances by Members of the Subcommittee as the purchase date, (tr. at 2793, 2810, 3213, 3674), was in actuality the date that the Joint Venture was formed, not the date on which the property was purchased. The Joint Venture agreement provided CDC with the opportunity to terminate the agreement if the project were not to receive moderate rehabilitation funding. CFM, likewise, had the opportunity with the seller of the property to exercise the option not to purchase the property. The purchase effected on
October 26, 1987 was made only after the AHAP was signed and the rehabilitation plan was thoroughly discussed and approved by the PHA, local officials, and the Joint Venture. The fact that the property was purchased on October 26, 1987 not on April 8, 1987 should correct the misperception apparently shared by several Members of the Subcommittee to the effect that the Joint Venture committed $4.4 million prior to award of the program funding by HUD to the PHA.

A second point of clarification relates to Mr. Cruse's contacts with the PHA prior to November 19, 1986. I stated in several parts of my testimony that it was my understanding that Mr. Cruse visited the site, had conversations with the current owner of the property, and did his due diligence, including analyzing the project numbers and communicating with the PHA. (Tr. at 1950, 3146, 3628, 3867, 4082.) I further indicated that, based on this process, he determined the meritworthiness of the project. I stated that I believed that the PHA had made an actual determination of meritworthiness prior to the November 19, 1986 meeting and the submission on November 20, 1986. (Tr. at 2145.) This statement was based, as I indicated, on communications I had had and other information I received in preparation for the testimony, as I had not been actively involved at that stage with any of this activity. Because I did
not have all of the facts, I told the Subcommittee that I would supplement my testimony with additional information. In seeking that information, I have become aware that there are several areas of confusion which need to be clarified relating to Mr. Cruse and the PHA and the determination of meritworthiness.

Based on my further inquiries, it appears Mr. Cruse did not have a meeting with PHA civil servants prior to November, 1986. His due diligence in that regard was limited to telephonic communication for information gathering with the PHA. He said he thought that the date of his conversation would have been sometime during his due diligence in September and October of 1986, but does not know with whom he spoke. Furthermore, he does not recall whether he placed the calls from New Jersey during his first visit to the site in early October, 1986.

Mr. Cruse indicated that the initial determination of the project's meritworthiness was his own conclusion. His judgment was based on his expertise in housing, his knowledge of the moderate rehab program, his analysis of the project and its subsidies (as it was then being treated by the PHA with the Section 8 certificates), and his understanding of housing shortages in the area. It was based on this judgment that we determined to go forward with the project.
The PHA acknowledged the meritworthiness of the project during the November 19, 1987 meeting that Mr. Cruse had with Mr. Stevens and Mr. Ziegler. At that time, the PHA concurred with Mr. Cruse's assessment of the project. Since the PHA had a history with the project, based on its involvement with the Section 8 certificate program, they were aware of the problems, recognized the need, and agreed with Mr. Cruse that his plan would be workable. Mr. Cruse has indicated that to the best of his recollection, he cannot recall whether there was any discussion during the November 19 meeting of his initial telephonic communications with PHA staff made during the September-October time period (tr. at 4595).

Another area requiring clarification deals with Mayor Peterson saying that local officials had not had any contact from HUD prior to late August. I tried to indicate in my testimony that it was not HUD's responsibility to communicate with local officials. (Tr. at 2046.) I indicated that I believed it was the responsibility of the PHA. In fact, I have since learned that HUD had removed even the requirement of PHA communication during the early stages of a project. The basic point of clarification I was trying to make was that it was the PHA, not HUD, that ultimately should have communicated with local officials.
Another point relates to when the initial contact was made with local officials. In his testimony, the Mayor indicated that that initial contact occurred in late summer. (Tr. at 2025.) I indicated that I believed that there had been contact prior to August. I was confused, however, as to whether the contact with local officials was made by the PHA or by Mr. Cruse (tr. at 2416). Again, this confusion was due to the fact that I was not directly involved with details concerning the project at this point.

The initial contact I was referring to in my testimony (tr. at 2411, 3903) occurred on or about May 5, 1987. The communication was between the architect for the Joint Venture and a Mr. Froelich, the Chief Construction Officer and Inspector for the local township. The purpose of the communication was to review building code requirements of Upper Deerfield in order for the Joint Venture to be able to finalize specific rehabilitation plans. The communication, as I understand it, provided Mr. Froelich with knowledge of the general interest that the Joint Venture had in the Seabrook project.

The point that I was trying to articulate is that I knew there had been some previous contact with local township officials prior to late August. However, the critical point, I believe, is that when extensive communication was necessary
between the local town officials, the Joint Venture, and the PHA, it did occur. Those critical communications were the August/September discussions related to finalizing the rehabilitation plan prior to final approval of the AHAP on October 8, 1987.

A further point of clarification concerns the original asking price for the property (tr. at 4635). I am told by Mr. Cruse that the original asking price by the seller for the Seabrook project was approximately $4.9 million. The Joint Venture ultimately purchased the property for approximately $4.4 million.

I also wish to clarify my answer in response to a question raised by Mr. Frank, when he asked if "there were any other projects in the area surveyed" and whether the PHA did a survey. (Tr. at 3963.) I indicated that I thought a survey existed. However, I was referring to a rent survey. My review of the transcript indicates that Mr. Frank apparently was talking about an area housing survey. I have no knowledge of whether such a survey existed and therefore, I am unable to provide it to the Subcommittee.

I wish to clarify my answer in response to a question raised by Chairman Lantos regarding involvement personally and by Black, Manafort, Stone & Kelly ("BMS&K") in other HUD projects. I
indicated (tr. at 2945) that we had been retained on a project in West Palm Beach, Florida. I further indicated that the program was funded, but the project was not. (Tr. at 2956.) I also indicated that I was not personally involved in this project. I have subsequently learned that approximately 33 units were funded. Further, I have been advised that BMS&K was involved with two projects on behalf of the same client in West Palm Beach. In addition to the mod rehab aspect just mentioned, BMS&K also performed technical services with respect to a MODAG in West Palm Beach that had already been funded prior to our involvement.

At the time of my testimony, it was my understanding that the West Palm Beach project was the only other mod rehab project with which the Firm or I had been involved. I also identified in my testimony other HUD matters, outside of the mod rehab program, with which we have been involved, including the City of Camden matters, the National Handicapped Organization matter, and others. (Tr. at 2970 ff.) My answer was based on the preparation I had made for my testimony, and as I indicated in my testimony, was being given "[t]o the best of my knowledge. I believe I am being correct. I have not been personally involved in any HUD representations beyond mod rehab." (Tr. at 2950).

I would note that the stenographer who prepared the transcript of my testimony inadvertently deleted one client I
mentioned in my testimony immediately following line 2966 of my transcript copy. I had stated at that point that we represent a university, and noted that this representation had a housing component.

My pre-testimony review of other HUD projects was based principally on our firm’s accounting and client records, which accordingly identified projects for which we had received a fee. Subsequently, it has come to my attention that there have been other HUD matters with which we have been involved but which were not identified during my pre-testimony preparation, in most instances because the projects never matured to the point where we received a fee. This is the case with respect to the Savannah, Georgia project, mentioned in a New York Times article dated July 3, 1989. The facts of this project as I understand them are as follows: During the course of our work on the West Palm Beach project, which I mentioned in my testimony, our client brought a potential mod rehab project in Savannah to our attention. Associates of BMS&K inspected the project, and met with several PHA and HUD officials, but the client was unable to pursue the transaction and the matter was subsequently dropped. To the best of my knowledge, no program funding decisions from HUD were made on this project. Neither BMS&K nor I received any fee in connection with this matter. Approximately six months after the initial round of contacts regarding this project,
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associates of BMS&K approached the PHA and HUD again with respect to the same project, but this time on behalf of the CFM. The project never got beyond the due diligence stage. CFM never developed the project to the point where an application would be considered for funding. Among other things, CFM was not able to work out financing arrangements with the local bank. As a consequence, CFM decided not to go forward with the project. Again, to the best of my knowledge, no HUD program funding decisions were made on this project. Neither BMS&K nor I received any fee for activities on behalf of CFM regarding this matter.

In addition to the other HUD projects I identified, I have learned that BMS&K received a fee for services performed with respect to an existing UDAG in connection with a convalescent care facility in Trenton, New Jersey. Additionally, associates of BMS&K made appearances before HUD on behalf of a number of our other general retainer clients, including the Government of Puerto Rico, Capital Associates (Chicago), and the Atlantic City Casino Association.

There are other projects with which we have had some form of "involvement," typically involving conversations regarding the status of various matters. To the best of my knowledge, however, the list I identified in my testimony,
coupled with the matters set forth in this letter, details the HUD projects with which we were formally involved by way of receiving a fee for the services we performed.

I believe that the information contained above is responsive to each of the Subcommittee's requests for additional information, and hope that it resolves any remaining questions you may have. I trust that the Subcommittee appreciates that here, as in my testimony, I have attempted to provide an accurate picture of these matters to the best of my understanding based both on my own direct knowledge of the facts as well as on information provided to me by my colleagues.

I believe that the combination of my oral testimony and this written document puts into perspective, as best I can, areas where the Subcommittee expressed interest.

Respectfully,

[Signature]

Paul J. Manafort
July 13, 1989

The Honorable Thomas Lantos
Chairman
Committee on Government Operations
2157 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

As a result of conversations we had yesterday with a reporter from The New York Times, in which we denied involvement in a certain HUD project only to learn subsequently that services in fact were rendered by Black, Manafort, Stone & Kelly ("BMS&K") but that compensation was directed to a related partnership, we are concerned about other projects in which one or more of our principals may have been involved, for which compensation was paid but not received by BMS&K.

Mr. Manafort's testimony and prior correspondence with the Subcommittee have attempted to be responsive to the question of our involvement in HUD projects. We are persuaded, however, that a broader review needs to be undertaken before we can be certain that any project we worked on, individually, corporately, or through a related business entity, has been disclosed. In this regard, Mr. Manafort, who is out of the country at this time, will submit an additional statement regarding our HUD involvement prior to his scheduled appearance before your Subcommittee this Fall.

Thank you for your consideration in this matter.

Respectfully,

Nicholas A. Panuzio
Chairman
July 18, 1989

The Honorable Thomas Lantos
Chairman, Subcommittee on Housing and Employment
House Committee on Government Operations
2157 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

In my testimony before the Subcommittee on June 20, 1989, you asked me to identify HUD projects with which either my company, Black, Manafort, Stone & Kelly Public Affairs Company ("BMS&K") or I personally have been involved. On July 11, 1989, I submitted a letter addressed to you outlining additional projects which I had not recalled during my oral testimony. To the best of my knowledge, the July 11 letter set forth every HUD project for which my firm, BMS&K, or I received a fee since the firm's inception in March, 1985.

Following delivery of my letter to you, the news media reported stories regarding our involvement in a project in Waterbury, Connecticut in 1984 in which fees were received by a related organization. As a result of these stories, on July 13, while I was out of the country, Nicholas Panuzio, Chairman of
BMS&K, sent you a letter on my behalf indicating that our firm would undertake a broader review, including not only the records of BMS&K, but the records of previous and related organizations, going back to 1980, as well as a more extensive review of my personal records. Accordingly, I returned from Europe over the week-end to undertake this task. The purpose of this letter is to relate to you the results of our review to date.

The information contained herein was obtained principally from our expanded review of the records of Black, Manafort & Stone ("BM&S"), our primary operating organization prior to 1985, along with the records of several related organizations, including Fairfax Street Partnership (the entity mentioned in the news reports of the Waterbury, Connecticut project).

This expanded review has identified four additional general retainer clients for whom BM&S did some HUD work prior to 1985: the City of Chicago, Roncare Industries, Kelly-Picerne, and the New York Urban Development Corporation.

In addition to these retainer clients, BM&S represented Raymond F. Daddario of MASCOR Development in 1981-82, in connection with a Section 8 new construction project.

In 1982, BM&S and I received fees for services rendered on behalf of counsel for Devcon Enterprises in connection with the
acquisition of 66 Section 8 new construction units for a project in New Britain, Connecticut.

In 1983, we performed services on behalf of Roncalli Institute, a charitable organization, in connection with a pending application for 60 units under the Section 202 program. These services were performed without compensation.

In 1984, we performed services on behalf of Colonial Realty, then located in New Britain, Connecticut, on several matters before HUD. Fees on these matters were received personally by me.

In 1984, we performed services in connection with allocation of 64 mod rehab units to the Housing Authority of the City of Waterbury, Connecticut. (This project was reported in the New York Times article dated July 12, 1989.) In that year, the Fairfax Street Partnership (Partners: Black, Manafort, Stone, Panuzio) received $47,000 from Sherman Cooper, a Waterbury, Connecticut developer, for these services.

In 1982, several members of BM&S became stockholders of National Housing Renewal Corporation, an entity which was engaged in the sale and transfer of existing real estate projects. During 1983-1984, this entity negotiated the private sale and transfer of one existing Federally-subsidized property.
The above information has been obtained from our review of our previous operating entity and related organizations prior to 1985. In addition, we have further established that in July, 1986, BMS&K contacted HUD in support of a pending request for 94 mod rehab units submitted by the Housing Authority of the City of Waterbury. BMS&K never pursued this matter further and received no fees.

Finally, I have learned that at about the time of my June 20 testimony, BMS&K added a new general retainer client, Mortgage Insurance Companies of America, whose representation will involve some HUD activity.

Based on our review to date, it is my belief that the matters set forth in this letter, coupled with the projects identified in my July 11 letter and in my oral testimony on June 20, constitute all HUD-related projects undertaken by BMS&K, BM&S, the related organizations, and myself on behalf of our clients.

During my oral testimony, I attempted to identify as fully and faithfully as I could all HUD projects with which my company and I have been involved, consistent with my recollection at the time. Given that the principal subject of the hearing was to be the Seabrook project, the majority of my preparation was spent reviewing that matter. We did conduct a limited review
involving the BMS&K accounting and client records prior to June 20, and my oral testimony regarding other HUD projects reflected the results of this review. In the follow-up to my testimony, I frankly focused on HUD projects my colleagues and I had undertaken in connection with BMS&K, which I took to be the subject of the Chairman’s question. During this time, we undertook a more thorough review of the BMS&K records, extending beyond the firm’s accounting and client records, and provided the Subcommittee with the results of this process in my letter of July 11.

The day after we submitted the letter, of course, the New York Times published an article regarding the 1984 Waterbury project, for which our fees were received, not in BMS&K, but rather in the Fairfax Street Partnership, an entity whose records we had not reviewed prior to the submission of the June 11 letter. This caused us to be concerned about still other projects we had not uncovered in our records search and which none of us had remembered when we prepared the July 11 letter. As a result, in my absence Mr. Panuzi.e immediately wrote to you on July 13, indicating our commitment to conduct a broader review and to report to the Subcommittee the results of our inquiry. I flew back from Europe the following morning to
assist in this process, and my colleagues and I have worked through the week-end to fulfill this commitment.

Both my firm and I remain fully willing to cooperate with the Subcommittee, and I am prepared to testify before the Subcommittee again in September regarding these matters if requested to do so. In the meantime, if you or your staff have any additional questions, please feel free to contact either myself, Nicholas Panuzio or Charles Black.

Respectfully,

Paul J. Manafoft

Paul J. Manafoft
ABUSES, FAVORITISM, AND MISMANAGEMENT
IN HUD PROGRAMS

(Part 2)

THURSDAY, JUNE 22, 1989

HOUSE OF REPRESENTATIVES,
EMPLOYMENT AND HOUSING SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 2247, Rayburn House Office Building, Hon. Tom Lantos (chairman of the subcommittee) presiding.

Present: Representatives Tom Lantos, Barney Frank, Ted Weiss, Donald E. “Buz” Lukens, Jon L. Kyl, and Christopher Shays.

Also present: Representatives Bruce A. Morrison, Joseph P. Kennedy II, and Marge Roukema.

Staff present: Stuart E. Weisberg, staff director and counsel; Celia Boddington, professional staff member; June Livingston, clerk; Jeff Albrecht, minority professional staff, Committee on Government Operations, and Jonathan Atwood, legislative assistant to Congressman Shays.

Mr. LANTOS. The subcommittee will please come to order.

Before commenting on this morning’s witnesses and subject, the Chair would like to express his very deep appreciation to the vast number of HUD career employees who have written indicating their support of this inquiry and to express my respect for the professional, honest, hardworking job that clearly the vast majority of HUD career employees are doing under the most difficult of conceivable circumstances.

The HUD career staff has not only been decimated, but its internal ability to supervise many of the programs has been severely restricted by unreasonable cutbacks in its travel funding, and I suspect that one of the results of our inquiry will be a very careful examination by Secretary Kemp of the needs of HUD career people in terms of staff support to carry on their responsibilities.

Secondly, the Chair would like to announce that after the Fourth of July recess we will have hearings on mortgage fraud as it relates to HUD. The loan insurance program, of course, has been catapulted to the center of national attention in recent days and we are preparing to have hearings on the question of mortgage fraud as it relates to HUD.

Finally, I want to indicate we will also have a hearing on the Arlington, TX, case that has emerged in recent days.

(155)
This morning the subcommittee continues its hearings on the mushrooming scandals of the Department of Housing and Urban Development. Today we will be revisiting the use of influence peddling to secure scarce and valuable Section 8 Moderate Rehabilitation funds.

At our hearing earlier this week the testimony we heard from Mr. Paul Manafort graphically showed how the system operated in a political manner and demonstrated the need for objective criteria in awarding these scarce rent subsidy funds. While local officials from Upper Deerfield Township, NJ, viewed the projects as a tremendous waste of taxpayers' money, HUD funded this unworthy project while rejecting many of vastly greater merit.

The selection system then in place at HUD for awarding moderate rehabilitation funds was not based on the merits of each application. Rather, the game played at HUD headquarters in Washington was, "Let's Make A Deal."

Our three witnesses at today's hearing are all former high-ranking HUD officials. Mr. Joseph Strauss was a Special Assistant to HUD Secretary Pierce from May 1981 through May 1983. Mr. Philip Abrams served as Deputy Assistant Secretary for Housing and subsequently as Under Secretary for HUD between 1981 and 1984. Mr. Philip Winn, who is currently the U.S. Ambassador to Switzerland, served as Assistant Secretary for Housing between April 1981 and March 1982.

These three individuals, upon leaving Government, reentered the private sector and are alleged to have cashed in on the Moderate Rehabilitation Program and to have received a vastly disproportionate share of the units awarded by HUD. While there is nothing per se wrong with former HUD officials benefitting from a program after leaving Government service, the question we hope to have answered today is whether their success resulted from what they knew or whom they knew, or perhaps a combination of the two.

Our next hearing will be a week from today, Thursday, June 29, where our witnesses will be Mr. Frederick Bush, who is being recalled to testify about a $268,000 technical assistance grant that his firm received over the objections of career HUD employees; Mr. William Connolly, the Director of Housing of the New Jersey Department of Community Affairs; and Mr. Hunter Cushing, former Deputy Assistant Secretary for Multifamily Housing.

The Chair would also like to make known that this is a very heavy legislative day in the Congress and unfortunately we will have a number of interruptions requiring hopefully very brief recesses.

Congressman Kyl.
Mr. Kyl. Mr. Chairman, I have no statement but would like to reiterate that this is a very heavy legislative day. I will have markup in Armed Services and will have to leave after a while but will be here as long as I possibly can.
Mr. LANTOS. I appreciate it.
Congressman Frank.
Mr. FRANK. No statement, Mr. Chairman.
Mr. LANTOS. Congressman Shays.
Mr. SHAYS. No statement, Mr. Chairman.
Mr. LANTOS. We will then hear from our first witness, Mr. Joseph Strauss, former Special Assistant to the Secretary of the Department of Housing and Urban Development.

[Witness sworn.]

Mr. LANTOS. For the record, would you identify the gentleman who is accompanying you.

Mr. STRAUSS. That is Mr. Terrence O'Donnell, counsel.

Mr. LANTOS. We are happy to see you, Mr. O'Donnell.

Mr. O'DONNELL. Thank you very much, Mr. Chairman.

Mr. LANTOS. Mr. Strauss, your entire written statement will be entered into the record. You may proceed in your own way.

STATEMENT OF JOSEPH STRAUSS, FORMER SPECIAL ASSISTANT TO THE SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, ACCOMPANIED BY TERRENCE O'DONNELL, COUNSEL

Mr. STRAUSS. Thank you.

Mr. Chairman, as you are aware, I have met with some of the members of the committee and its staff. I know that there are many important areas that the committee wishes to cover with me. Therefore, I have decided to waive an opening statement and go right ahead with your questions.

I hope you will understand, however, that my involvement with HUD dates back some eight years. During that time I have worked with hundreds of people, had thousands of conversations, and reviewed endless documentation.

I want you to know that in preparation for this hearing even with the help of counsel I have not had an opportunity to go over and review all of the information that might be available to me. I will do my very best, however, to answer the committee's questions completely and accurately, and where my recollection is not good, I will try and point that out to you.

Thank you.

Mr. LANTOS. Mr. Strauss, the committee has been meticulously solicitous of witnesses in terms of the vast number of specific questions that they may not have specific answers for and we shall certainly treat you in a similar fashion.

Will you first outline for us the totality of your involvement with HUD, beginning with your first employment at HUD?

Mr. STRAUSS. Are you speaking of the period of my employment?

Mr. LANTOS. Your entire period of association with the Department of Housing and Urban Development.

Mr. STRAUSS. I began employment at the Department of Housing and Urban Development in the position of Special Assistant to the Secretary in May 1981. I continued there for two years, leaving in May 1983. During that entire time I was in the position of Special Assistant to the Secretary.

Mr. LANTOS. To be Special Assistant to a Cabinet Secretary is a very high level appointment. How did you obtain that appointment?

Mr. STRAUSS. I met Secretary Pierce and some of the other officials who later ended up working at HUD in the 1980 Reagan cam-
Mr. LANTOS. Ballot Security?

Mr. STRAUSS. Voting ballot security, sir. My responsibilities there were essentially to have an overview of the ballot arrangements and the actual election day voting on November 4. During that time I met, very briefly, Secretary Pierce, and an individual named Lance Wilson. I had an opportunity to work with Mr. Wilson in that endeavor. Later, while I was looking at other possible positions in Washington, Secretary Pierce was then appointed as Secretary. Lance Wilson was appointed as his Executive Assistant, and they called me down for interviews, which I had with the Secretary, and he chose me for the position.

Mr. LANTOS. What were your specific responsibilities as Special Assistant?

Mr. STRAUSS. I had several diverse areas of responsibility. The three largest areas, my primary responsibilities over the whole two-year period—it fluctuated; they didn’t all start in the beginning and all end at the end; they overlapped a little bit.

Mr. LANTOS. I understand.

Mr. STRAUSS. Firstly, I had to give the Secretary input and feedback as it related to the immigration and refugee policy enacted into law in 1981 in this country, as it related to HUD. The White House was looking for specific impact and recommendations on those impacts as they related to the agency. That took up a significant portion of my time.

The second major area was one which was somewhat self-initiated, as my job description allowed. That was my involvement in an area known as transfers of physical assets, which is a program within HUD that enables the agency to take a project which is in foreclosure or has already been foreclosed and has been assigned to the Secretary and get it out of the Department; that is, there are no subsidies usually still attached to these things.

At the time that I began my employment at HUD there was a tremendous emphasis by the Secretary on the efforts of debt collection. One of the problems that the Department had in great disarray was maintenance of its mortgage portfolio. We discovered that there is a vault on the sixth floor of the building that was at that time stacked with mortgage notes. The door was left open all the time. The agency had literally no idea what projects it owned, much less how to collect on the mortgages or who was delinquent, et cetera.

I saw that as an opportunity for me to get involved with the career staff and work toward resolving that problem.

I discussed my ideas with the Secretary. He concurred that it was a worthwhile and very important thing to do, to get this process in order.

I assembled a group of career staff, five or six attorneys out of the General Counsel’s Office and five or six individuals—I am approximating, sir—out of the Housing Division. Again, all career appointees and people who I developed over time a great deal of respect for in terms of their enforcement-mindedness and their trying to make sure that the Federal Government was not taken or was treated properly in its disposition of these assets.
We had many, many meetings over the series of this two-year period. I tried to act as a catalyst from the Secretary’s Office, offering encouragement, sitting in their various meetings, looking at the profile of the way that they felt this needed to be handled.

It resulted some time prior to my leaving the Department in the application of a formal process which had not existed before whereby owners could be tracked, their payments could be tracked. There was going to be a consistent approach taken in all cases when a developer would come into the agency, instead of a haphazard approach, one deal having been made with one individual and one part of the country being different from another.

It was our feeling that as these rules were disseminated out to the public and the public began to have an awareness that there was in fact this consistent application of rules they would come in with better proposals and the negotiating, the used car sales type activity would end and we would be able to apply a consistent policy to this.

That was the second major area of my responsibility. I can go into that more if you would like.

The third major area of responsibility dealt with the Federal Emergency Management Agency and continuity of Government operations. I can tell you that as an overview, but that work was classified as top secret and above, and I am obviously precluded from discussing a lot of the nature of it. But it did take up a lot of my time there.

In addition, Congressman, I had some daily activities on sort of an ad hoc basis where letters might come in to the Secretary or a particular problem might arise or I might be directed by the Secretary to write a response to an individual citizen’s type complaint about HUD, or a Congressman or Senator’s type complaint about HUD. Interfacing in that fashion.

I did not have any program responsibility whatsoever.

Mr. LANTOS. Maybe later on my colleagues or I will probe into how this apparent rationalization, streamlining, and establishment of objective nationwide criteria has degenerated into what Mr. Kemp calls a “swamp” with a total lack of management controls.

Describe, if you will, Mr. Strauss, as candidly and as succinctly as you can, the Secretary’s management style. As you know, much of this investigation revolves around the question of who in fact was in charge at HUD. To what extent did the Secretary delegate authority? To what extent did he follow up on whether the people to whom he delegated authority carried out their responsibilities accurately in line with his directives? Describe the operation of the office.

Mr. STRAUSS. Understand, please, that this is the perspective of a 24-year-old coming into Government and being somewhat awed by what was going on around him.

Mr. LANTOS. You were 24 years old when you became Special Assistant?

Mr. STRAUSS. I believe so, sir.

Mr. LANTOS. What previous experience did you have in the field of housing, by the way?

Mr. STRAUSS. I had graduated law school. I did not have any specific experience in housing whatsoever.
Mr. LANTOS. So you went to college and you got a law degree?
Mr. STRAUSS. I got a law degree, and I had a fairly extensive investigative background. I had been assigned by the New York State Select Committee on Crime to the U.S. Justice Department Organized Crime Strike Force in the Southern District of New York; Massachusetts Attorney General’s office; Weld County District Attorney’s office in Colorado.

As I recall, sir, and it is a little bit vague in my mind, the initial press release that the Department issued when I came there, which was issued out of the Secretary’s Office, said that part of the initial feeling as to what some of my responsibilities might be would be interaction with the Inspector General of HUD. And in fact I did have some of those kinds of interactions; I did work with the Inspector General from time to time while I was in the Department.

Mr. LANTOS. But for the record, you had no prior housing experience?
Mr. STRAUSS. No, sir.
Mr. LANTOS. Please go ahead and answer the question.
Mr. STRAUSS. I found Secretary Pierce in his relationship with me to be an honest, forthright individual. In the three areas which I have mentioned to you, and they were somewhat out of the mainstream HUD activities to a certain extent, there were initial presentations made by me to the Secretary or by he to me regarding the objectives of what I was working on. There was fairly frequent followup on what I was doing. I would estimate that I met with the Secretary on the average of perhaps once or twice a week in addition to going to senior staff meetings and the regular departmental type activities.

I found him in those areas that I worked to be aware of what I was doing, to be aware of what I felt the importance of what I was doing was, but generally I would classify him as a somewhat laissez-faire manager to the extent that he gave me a problem and said run with it, do what you can do to make this a better system, get input from the appropriate people, that is, General Counsel’s Office, Division of Housing, et cetera, and report back to me on a regular basis on your progress.

Mr. LANTOS. During the period you served as Special Assistant to the Secretary, how many special assistants did he have?
Mr. STRAUSS. To the best of my recollection, it ranged between three and possibly six. I believe at that time there was a position called Deputy Assistant Secretary for Indian and Alaska Native Programs. They were having a hard time filling that job. So they had special assistants.

Mr. LANTOS. Was there any hierarchy among these three to six special assistants?
Mr. STRAUSS. No, sir. There was no hierarchy.
Mr. LANTOS. Each of you reported directly to the Secretary?
Mr. STRAUSS. To my knowledge, sir, yes.

Mr. LANTOS. Let me come to specific projects in which you were involved. Describe for us, if you will, your relationship with former Interior Secretary James Watt.

Mr. STRAUSS. My relationship with James Watt began sometime in early 1984. To the best of my recollection, I would say the month
of February. I met James Watt through a mutual friend. Watt, at
that time, had office space in the same building as the friend.

Mr. LANTOS. Who was that person?

Mr. STRAUSS. Mark Holtzman. He was then director of Citizens
for America, which is a grass roots lobbying organization. I think
they were located in the Heritage Building. Holtzman introduced
me to James Watt.

Mr. LANTOS. His position was what?

Mr. STRAUSS. Executive director of Citizens for America.

Mr. LANTOS. What was Citizens for America?

Mr. STRAUSS. A grass roots lobbying organization. A Republican
group, conservative.

I had the opportunity to meet James Watt and get involved in a
series of discussions with him. He expressed to me the fact that he
was thinking about doing various things in Washington. Nonspeci-
fic, but I think law firm oriented type activities. I felt that there
was an opportunity for us possibly to join forces.

At that point I had established Phoenix Associates, which I guess
we will get into. At that point I had established a company with
technicians, attorneys. You have spoken to one of the technicians
who I had retained early on, my partner. I thought that we might
join forces.

I had been having some real problems in my activities at HUD in
terms of getting any response from the agency on a timely basis
and on a fair basis. I felt I had real problems there.

Mr. LANTOS. Let me stop you there for a second. You were a 24-
year-old young man when you joined HUD, barely out of college
and law school.

Mr. STRAUSS. Yes, sir.

Mr. LANTOS. And you were thrust into a pretty high powered po-
sition. You were Special Assistant to one of the Cabinet Secretaries
of a new administration. You stayed with that job for two years,
May 1981 to May 1983. You are now telling us a story of job satis-
faction, really. You claim to have instituted new procedures that
reorganized things in a much better, more efficiently functioning
fashion.

Mr. STRAUSS. Yes, sir.

Mr. LANTOS. You were 26 in May 1983.

Did you leave HUD of your own volition? Were you asked to
leave? And if you left of your own volition, why did you do so?

Mr. STRAUSS. I perceived during my last year or so at HUD that
there was a niche in the private sector for an individual who had
an understanding of HUD programs, specifically how they worked.
Since I didn’t believe any one individual had all of that knowledge,
I felt that if I could assemble a team of professionals, that is, law-
yers, technicians, people with really significant housing experience
and specific UDAG experience and experience in the other pro-
grams that I wanted to work, I could represent clients before that
agency and probably do it in a manner that would be hopefully
better for the agency and better for the clients.

Mr. LANTOS. What you tried to do was to put together a group of
housing professionals who could do a competent job in working
with HUD on a variety of housing projects, is that correct?
Mr. Strauss. I hope more than competent. I hope more than simply competent. I really made a strong effort to get what I felt were the best people available to me in the country. I am not discussing Secretary Watt here; I am talking about technicians and attorneys.

Mr. Lantos. Let me accept that at face value. You put together a top-notch team of housing specialists who were uniquely qualified to deal with HUD. Would that be an accurate statement?

Mr. Strauss. Yes, sir.

Mr. Lantos. Let me state, and certainly the record of your company indicates, that it was financially a very successful operation for a 26-year-old young man. You made a great deal of money in dealing with HUD. Did you view Secretary Watt as fitting into that team of top-notch housing specialists?

Mr. Strauss. No, sir, not at all.

Mr. Lantos. In what context did you wish to have him employed by you?

Mr. Strauss. I felt that based upon his stature and influence and general recognition it was a wonderful opportunity for me at that age to bring credibility to my business by being associated with a former Cabinet member. At the same time, to enhance my ability to bring in clients.

Mr. Lantos. What was his stature in the housing field?

Mr. Strauss. None in the housing field. This was not specifically related to housing, sir. I certainly did have in mind at the time that he would help us or might be able to help us within the Department of Housing and Urban Development, but my real overall reasons were much broader than that in bringing him in. They were to bring in additional clients, having nothing to do with the housing business. I felt he was a recognized name. He was a former Cabinet man and it would be sort of a two-way street. I would hope that he would have brought in business to me in terms of new clients and that I would be able to get into other areas that had nothing to do with housing.

Mr. Lantos. Did you contemplate using his services vis-a-vis Secretary Pierce?

Mr. Strauss. No. Not as an individual, sir. Not as an individual at the time that I hired him.

Mr. Lantos. Let me pursue that, if I may. You did in fact subsequently use him in that capacity?

Mr. Strauss. Yes, sir.

Mr. Lantos. Since you did not contemplate it initially, did that thought occur to you later on, or did Secretary Watt suggest it?

Mr. Strauss. If I could correct one thing you said, sir.

Mr. Lantos. Please.

Mr. Strauss. I didn't hire Secretary Watt. I may misspeak from time to time because I am a little bit nervous. I retained Secretary Watt under a retention letter, which I have found and have with me, and I brought copies for the committee.

Mr. Lantos. We would like a copy of that.

[The letter follows:]
March 12, 1984

Mr. James Watt
1575 Eye Street, N.W.
Suite 575
Washington, D.C. 20005

Re: 1. Corinthian Towers
2. Sokol Apartments
3. Kingsbury Apartments
4. Rogers Gardens

Dear Jim:

As you know, I believe we have attained a mutual understanding and agreement respecting your retention by The Phoenix Associates, Ltd. ("Phoenix") in connection with the above-referenced case files. In order to protect our respective positions, each of us recognizes the need to make clear our intent and to reduce the principal points of our agreement to writing. I propose to do so by this letter, therefore I request that you sign your understanding and agreement by signing below, with the intent of us each becoming legally bound hereby.

In each of the above-listed cases, Phoenix has been retained by a private sector developer client as their Washington-based consultant. In each instance, there exists a situation where the U.S. Department of Housing and Urban Development ("HUD"), its officials, employees, staff or executive branch appointees have repeatedly failed to honor their promises and representations. In each instance, our client has met or exceeded HUD's technical requirements, or has requested reasonable waivers to allow an acceptable incentive to the private developer to meet the public's need for safe, sanitary and affordable government assisted housing.

Phoenix has devoted many months of concentrated effort to each case, along with the efforts and resources of each individual client. Yet HUD has acted in an inconsistent, uninformed and arbitrary manner, to the point where legal claims of misfeasance (or worse) might soon be made against the agency by these clients. We believe your expertise and experience in administrative law and procedure, as a former Cabinet Secretary and respected member of the Bar, is valuable to our clients and to Phoenix.
Although it might be possible to calculate the hours of your effort required in each instance and set your compensation on that basis doing so poses problems for each of us. Phoenix cannot undertake an open-ended retention of your services without regard to success, as we have been retained in these matters on a contingent (or substantially contingent) basis. Further, in each situation, the client is at the point of total frustration and would be disinclined to agree to an open-ended hourly retention without a strong assurance or guarantee of ultimate success. Given HUD's recent record, such assurances or guarantees will not be made by Phoenix. On the other hand, you supply us not only with the actual hours of effort, but with a lifetime of experience, a finely tuned sense of what government agencies can and cannot accomplish within the bounds of the law, and a well developed flair for innovation often critical to success.

Therefore, to balance the competing factors discussed herein and in our many enjoyable conversations, the most reasonable alternative is for Phoenix to retain your services on a participation basis; to allow you a flat participation in our fee for each endeavour, to be paid out of the success fees paid by our clients to us.

The following listing shows the name of each project, the client, the nature of the request to HUD, and the amount to be paid to you within ten (10) business days of our receipt of our success fee from each client.

Project: Corinthian Apartments
Client: Mod Rehab. Housing Corp.
Objective: Our client has asked HUD to agree to a Workout and Completion Arrangement for a partially rehabilitated unoccupied housing project in New Jersey. The Arrangement calls for the partial satisfaction and release of a previously existing mortgage, the issuance of mortgage insurance for this new undertaking, as well as an increase in the continuing Section 8 authority allocated to the project. The Arrangement would establish complete physical and economic viability for Corinthian by the end of the workout period.

Fee Participation Amount: $20,000
Project: Sokol Apartments
Client: Curt Meltzer, Esq.
Objective: Our client has asked for HUD's approval of a Workout Arrangement for a project presently incumbered by a mortgage in default. The proposal would allow our client's group to acquire ownership, make essential repairs, take possession of and operate the project for the benefit of its low and moderate income tenants. At present, numerous building code violations and serious safety problems are allowed to continue.

Fee Participation Amount: $15,000

Project: Kingsbury Apartments
Client: Resources Funding Corporation
Objective: Our client and the New Jersey Housing Finance Agency have requested additional rental assistance payments to benefit the project's low and moderate income tenants.

Fee Participation Amount: $15,000

Project: Rogers Gardens
Client: Mod. Rehab. Housing Corp.
Objective: The New Jersey Housing Finance Agency has requested HUD authorization for funding, and a set aside under the Section 8 Housing Assistance Payments Program, for moderate rehabilitation in an amount sufficient to establish and maintain the economic viability of 271 residential living units for low income families.

Fee Participation Amount: $20,000
In consideration of your promise to exert best efforts to achieve success in each of the above matters, we agree to your fee participation in each instance as set forth above. We will continue to provide, or facilitate provision by each client, all supporting documentation and information required in each endeavor.

All of us at Phoenix respect your abilities and look forward to a fruitful business and professional relationship. In this regard, I want to work very closely together in these initial matters so that we may build a firm foundation for continued success.

Sincerely,

THE PHOENIX ASSOCIATES, LTD.

By:

Joseph A. Strauss
President

Accepted and Agreed.
This ___ day of March, 1984

JAMES WATT
Mr. Strauss. I want to give that to you, because I don't want to read from something that you are not reading from. I don't want to read anything out of context or not properly.

Mr. Lantos. Go ahead.

Mr. Frank. Read slow. We will keep up.

Mr. Lantos. Go ahead.

Mr. Strauss. Can I just wait until you all have a copy of this?

Mr. Lantos. Just go ahead.

Mr. Strauss. This is a letter from me to James Watt, dated March 12, 1984. I would like to point out for the record that this was written approximately a month or so after we met with James Watt and it was written at his request. He felt that he wanted to have some memorialization in writing of our general agreements. I would like to read at least part of this for you.

Mr. Lantos. Go ahead. For sake of brevity, try to read the portions that are relevant. I don't think the entire letter is relevant.

Mr. Strauss. The first paragraph perhaps is not, but it gets very relevant very quickly:

In each of the above-listed cases—

I have, as you can see, in the top right-hand corner specific projects.

Phoenix had been retained by a private sector developer client as their Washington-based consultant. In each instance, there exists a situation where the U.S. Department of HUD, its officials, employees, staff or executive branch appointees have repeatedly failed to honor their promises and representations. In each instance, our client has met or exceeded HUD's technical requirements, or has requested reasonable waivers to allow an acceptable incentive to the private developer to meet the public's need for safe, sanitary and affordable government assisted housing.

Phoenix has devoted many months of concentrated effort to each case, along with the efforts and resources of each individual client. Yet HUD has acted in an inconsistent, uninformed and arbitrary manner, to the point where legal claims of misfeasance (or worse) might soon be made against the agency by these clients. We believe your expertise and experience in administrative law and procedure, as a former Cabinet secretary and respected member of the bar, is valuable to our clients and to Phoenix.

Although it might be possible to calculate the hours of your effort required in each instance and set your compensation on that basis doing so poses problems for each of us. Phoenix cannot undertake an open-ended retention of your services without regard to success, as we have been retained in these matters on a contingent (or substantially contingent) basis. Further, in each situation, the client is at the point of total frustration and would be disinclined to agree to an open-ended hourly retention without a strong assurance or guarantee of ultimate success. Given HUD's recent record, such assurances or guarantees will not be made by Phoenix. On the other hand, you supply us not only with the actual hours of effort, but with a lifetime of experience, a finely tuned sense of what government agencies can and cannot accomplish within the bounds of the law, and a well developed flair for innovation often critical to success.

Therefore, to balance the competing factors discussed herein and in our many enjoyable conversations—

Mr. Lantos. Could I stop you with that "well developed flair for innovation"? [Laughter.]

That is a little rich. What particularly were you looking for that Mr. Watt's "well developed flair for innovation" would help you with? Architectural flair? Interior decorating flair? Landscape architectural flair? What was that "well developed flair for innovation" that you were trying to buy?

Mr. Strauss. The level of consideration that we could rise to within the agency short of a lawsuit.
Mr. LANTOS. Mr. Strauss, you are under oath and this committee is enormously patient. This is a very flowery letter. This is a very colorful letter. Maybe the phrase "well developed flair for innovation" just got beyond the line of one's patience. You hired him to use his influence at HUD, to help you push through your projects. Is that what this letter says in English?

Mr. STRAUSS. That's what this letter says.

Mr. LANTOS. Then let's not read into the "well developed flair for innovation" business, because you are wasting the committee's time.

You are testifying that you did not use Mr. Watt for any technical knowledge in the field of housing, correct?

Mr. STRAUSS. That is correct, sir.

Mr. LANTOS. You did not use him for any understanding of HUD because he was never near HUD, is that correct?

Mr. STRAUSS. That is correct, sir.

Mr. LANTOS. He may never have been in that building prior to your hiring him, is that correct?

Mr. STRAUSS. It's possible, sir.

Mr. LANTOS. The chances are he was never inside the building. You hired him to peddle his influence with Sam Pierce, to get you these projects, is that correct?

Mr. STRAUSS. While I think influence peddling is a pejorative term, I do agree, Congressman.

Mr. LANTOS. It is a descriptive term.

Mr. STRAUSS. In this sense the description is correct.

Mr. LANTOS. What I find interesting in your letter, and this is the first time I have glanced at it, is that you are making a blanket condemnation of all HUD officials, employees, staff, et cetera. This is what you are saying.

Mr. STRAUSS. No, sir.

Mr. LANTOS. Let me read it to you. Correct me if I am wrong. I am going to read your own letter. You are saying "In each of the above-listed cases, Phoenix,"—which is your company—"has been retained by a private sector developer client as their Washington-based consultant. In each instance, there exists a situation where the U.S. Department of Housing and Urban Development (HUD), its officials, employees, staff or executive branch appointees"—I repeat—"its officials, employees, staff or executive branch appointees have repeatedly failed to honor their promises and representations."

This is about as blanket an indictment as you could concoct. You are saying that the executive branch appointees, officials, employees and staff in every instance failed to honor their promises and representations. Therefore, you are turning to Mr. Watt to help you. You surely did not expect him to talk to low-level employees. You didn't expect him to talk to anybody in the middle echelons. You expected him to go to the top, isn't that correct?

Mr. STRAUSS. If necessary, yes, sir, but I did not have a particular expectation that he would need to go to the top in these cases.

I would like to correct one thing that you said for the record, if I might.

Mr. LANTOS. Please.
Mr. Strauss. I have the highest regard for most of the career staff that I dealt with at HUD.

Mr. Lantos. It doesn't seem so from this letter.

Mr. Strauss. I am saying to you, sir, that I had very specific demonstrable documented problems wherein we were fitting well within the HUD rules and regulations. We were having a very difficult time with phone calls being answered, with meetings being held, with misquotes of their own rules and regulations being made at meetings. It became apparent that in some cases there was a real gap that needed to be bridged, sir. I say that from a technical basis on these projects. It does not mean in every case. In many cases, as we will discover later, Secretary Watt's services were not used at all, in any capacity. There was no reason to.

Mr. Lantos. Mr. Strauss, you can't have it both ways. You started out your testimony under oath by saying that you gathered this very competent, dedicated, wonderful group of HUD employees, and with their help you reorganized your sphere of activity, isn't that true?

Mr. Strauss. I organized my sphere, yes.

Mr. Lantos. You leave HUD and now you work with HUD, and you write a letter to Mr. Watt employing him. You presumably think this is a useful letter in terms of your own testimony, because you are introducing it. The committee didn't. I didn't know there was such a letter. You offer a blanket condemnation, and you are very precise. You say HUD officials, employees, staff and executive branch appointees—the whole works.

Did this all happen because you left HUD? Prior to your leaving HUD they were all hardworking, wonderful people that you enjoyed creating good management systems with, and then you left and they suddenly became people who broke their promises and representations?

Mr. Strauss. No, sir. I don't think that is a fair characterization. This is a very subtle feeling that I am trying to convey to you. I am just trying to tell you the truth as I saw it and what I felt at the time and what I still feel now.

Mr. Lantos. I understand.

Mr. Strauss. There were people at the agency who I felt because they would see an individual from the private sector on a regular basis seemed to have a feeling—that would transcend career, political, et cetera—that if you were there frequently, that if you were there three times instead of one time, then you must be making three times as much money as one times as much money. There seemed to be some correlation in people's decision-making minds as to the frequency with which someone was seen, etc.

I honestly and sincerely believe that in every case that I was at HUD or that my partners represented people at HUD we were in a very sincere position, a demonstrable position to debate, to show the reasons we were there. I felt like we were handling those cases in that fashion, sir. I did not mean this, regardless of how it is being read now, as a blanket indictment.

Mr. Lantos. We have just had bells for the vote and the subcommittee will stand in recess for a brief period.

[Recess taken.]

Mr. Lantos. The subcommittee will resume its sitting.
We regret the inconvenience of this interruption.

Mr. Strauss, we interrupted you. Please proceed with any additional comments you wish to make concerning this letter.

Mr. Strauss. Just one, Congressman. I just want to state so there is no misunderstanding. Again, I appear here before you voluntarily. What I tell you is my best feeling and my most sincere feeling. On the four projects that were cited in the Watt letter, I felt that we were not getting a fair consideration, for whatever the reason was. I never meant to impute the reputation generally of the HUD career staff. In fact, the political staff—I don’t want to hand out percentages—was equally guilty of those things, and we point that out in the letter.

I make no bones, Congressman, about the fact that the reason that James Watt was hired, was retained, that we went into an association with him was not because of his housing knowledge or his technical knowledge or his legal skills, which may in fact be there. The reason was because of his access and his influence. I don’t want to make any bones about that and I don’t want to sidestep or anything like that. I want to answer your questions.

Mr. Lantos. We appreciate that.

You were one of a handful of people who was a Special Assistant to Secretary Pierce. You testified that you saw him regularly, both alone, I take it, one-on-one meetings, and in senior staff meetings.

Mr. Strauss. Yes, sir, and in other subcomponents.

Mr. Lantos. You knew many other people at HUD.

Mr. Strauss. Yes, sir.

Mr. Lantos. Why didn’t you use your own connections at HUD to lubricate things?

Mr. Strauss. To some extent, sir, I did in certain projects. I represented personally many of the TPAs, some mod rehabs, some UDAG, although UDAG was primarily our UDAG staffers. I did do that.

When I left the agency it was my judgment that the one person I did not really want to deal with after I left was the Secretary. I made that decision at the time because I felt that it would maybe be an imposition on his relationship with me and it would not look seemly.

Mr. Lantos. Did it look more seemly to have the former Secretary of the Interior go in on your behalf?

Mr. Strauss. At that age, at that time in my life, it appeared that way to me.

Mr. Lantos. Was it your impression that Mr. Pierce was going to make these decisions, that nobody at a level below him whom you knew could have helped you?

Mr. Strauss. The initial intentions at the time of the writing of this letter were not for Watt to go to the Secretary particularly, although that was an option if necessary.

First of all, the first three of these are not even mod rehab projects. I just want to point that out to you because we haven’t really gone through it. We felt that we needed, Mr. Chairman, great attention. It seemed that a problem that continually happened with HUD was not getting attention.

Mr. Lantos. That is not what you are saying in your letter. You say they broke their promises and representations.
Mr. Strauss. That's true. In these cases that's true.

Mr. Lantos. So it is not the lack of attention you are complaining about.

Mr. Strauss. The lack of appropriate attention, sir. In other words, in the first project here, just to give an example, we start this project in approximately mid-1983, after I have left HUD. We work it and work it and work it, and we have tens and tens of meetings with the career staff. Sometimes there were political people at HUD, the Deputy Assistant Secretary for Multifamily Housing, who would have been in charge of the people that were there, appearing at those meetings.

We would continually get responses, and some in writing, sir, that said this is a good proposal, this is a feasible proposal, this meets all of the HUD requirements, we'll give you an answer in five days. A month would go by. Again, another similar letter. Another two months would go by. Again, another similar letter. Another three months would go by. Again, another similar letter. And from sometimes different groups of people. So you would get an approval from one group and then they would bounce it up or bounce it laterally or bounce it down to another group. That was a continuing problem for us.

This letter was written in some degree of frustration, Mr. Chairman.

Mr. Lantos. There was a written contract under which the developer, Ms. Judith Siegel, agreed to pay James Watt $300,000 for securing Section 8 rent subsidy funds from HUD for a project in Essex, MD. Are you familiar with that project?

Mr. Strauss. Yes, I am, sir.

Mr. Lantos. Can you explain why Ms. Siegel sent a check for $169,000 to Mr. Watt and sent the balance, $131,000, to your company?

Mr. Strauss. Yes, sir, I think I can.

Mr. Lantos. Do this very carefully, because the committee has probed Mr. Watt on this subject and I am not sure we have gotten satisfactory responses.

Mr. Strauss. I don't know what Mr. Watt's recollection on this is, but I will tell you my own recollection.

First of all, to understand the context, this project in Essex, MD, was located by my company, by Judith Siegel, and by fee finders that we had working with us in 1983, approximately six, seven or eight months before we began to work with Watt and signed this retainer letter agreement with him.

I was at that point paying my partner on a retainer basis a significant amount of money per year. We had gotten an assistant attorney to work with her on staff full time, two secretaries, all of the travel, the reference documents, the seminars. We were learning, sir, also as we were going along. We were attending tax seminars, housing seminars, multifamily seminars. I paid all of those expenses. Phoenix paid those. And the project had already been, I think as you know, submitted as a Section 8 application and had fallen by the wayside. It had not been funded. While the State of Maryland was very much behind it, nothing much had happened.

So we generated that project. We created a matrix on that project. We did a physical construction punch list. In other words,
the project continued to degenerate during these intervening years. So it required a significant amount of technical expertise to make something out of this.

At a later point, after we hired Watt, early 1986, the application went forward again to the Department. So that this project was discovered by my partner at a significant cost to my company. We had had a number of meetings with the owners. We had physically visited the project. We had architects and engineers that had been onsite. We had brought in legal staff to do a feasibility analysis. We had gone to the State to see if the State would be willing to be forthcoming with tax credits.

I want to point out something else. My partner, Judith Siegel, had done a considerable amount of work with the State, which essentially could be translated into “if you feel so strongly about this project, State of Maryland, if it is really such a top item for you, in your opinion, then you should be willing to put state money in with the federal money; you should be willing to give your own subsidies.” This is very limited money, secondary financing.

Mr. LANTOS. Let me stop you a moment. You keep referring to Ms. Siegel as your partner. Why didn’t she have a contract with you? Why did she have a contract with Mr. Watt?

Mr. STRAUSS. She did have a contract with me for the time. We have a draft contract. I don’t know if it’s a formal contract. It delineated our relationship from the beginning. But I wanted to give you the context from which this project arose so the facts I am giving you now will make sense.

Mr. LANTOS. But on this particular project the contract was between her and Mr. Watt?

Mr. STRAUSS. Yes, sir.

Mr. LANTOS. Although in point of fact you were her partner?

Mr. STRAUSS. I was her partner on a number of things.

Mr. LANTOS. But not on this?

Mr. STRAUSS. On this I was her partner.

Mr. LANTOS. Is there an executed contract to that effect?

Mr. STRAUSS. On this project, no.

Mr. LANTOS. In what context were you then partners?

Mr. STRAUSS. In the same way I was on all other projects with her. I had no other contracts. This was not a unique-situation, sir, where there was no contract. I trust my partner, Judith Siegel, implicitly. I would do many projects or deals with her or business arrangements on a handshake, because I would trust her to pay me at the appropriate time and in the appropriate amount. I still believe that. I still believe that she is a very honest person and that she would do that, and that was the somewhat casual nature of my relationship with her.

Mr. LANTOS. You are testifying that your business relationship with Ms. Siegel was basically on a handshake basis?

Mr. STRAUSS. Yes.

Mr. LANTOS. There was mutual confidence?

Mr. STRAUSS. Yes.

Mr. LANTOS. But neither of you had a handshake relationship with Mr. Watt. Each of you had a contract with Mr. Watt.

Mr. STRAUSS. I would have had a handshake relationship with Mr. Watt. I did in the beginning, but he requested of me a memori-
alization in writing of what we had talked about. That was his nature.

Mr. LANTOS. Go ahead.

Mr. STRAUSS. I had gone to the great out of pocket expense in locating a project, working up the matrix on it, doing all the things that I just enumerated to you. At the time Jim Watt signed his contract with Judy Siegel or vice versa I was taking a little bit less of an active role in these kinds of things. We are now into 1986, in early 1986, I believe.

My knowledge was that in fact the rate to be paid by Ms. Siegel on a project like this, based on my experience, was $300,000, roughly $1,000 a unit. It was roughly a 300-unit project. Therefore $300,000. And that she was aware that I would be sharing in the proceeds of this project based upon the work I had done and the out of pocket money I had laid out and the time that we had spent on this project with Watt, although she did not know the details of that. I think that she has stated that she knew I was somehow involved with him financially, but she didn't know the details of it. The details are as follows:

I had agreed prior to that time that if Jim Watt went ahead with the project with Judy Siegel and it was one that was developed under the Phoenix umbrella in the beginning, that we would split 50-50 the proceeds he was going to receive on that. For that, then, I was doing in essence two things.

On the minimal side I was briefing Secretary Watt, which was, I would say at the most a matter of two weeks, maybe four hours a day, I am really going back far in my memory. But it was a relatively minimal amount of time. And then keep him updated on the nature of the project.

Jim Watt seemed to have a tremendous demand he made of us to keep him technically aware of project-related information. I think because he felt that he might be taken to task on this or that in a meeting with Secretary Pierce or whomever, someone would say: Well, why this project, or, why this State, why this public housing authority? That was his attitude. That was the one side of what I was doing.

The much greater side of what I was doing was the work I had done to that point with Ms. Siegel and then subsequent work after. Syndication analysis on this project was extensive. We went to more than one syndicator, met with them, looked at the amount of basis points paid. We looked carefully at whether or not letters of credit versus lump sum payments would be applied to this project. In other words, in syndication it would be a one, two, three, four or fractional amount of pay. So there is a time value of money calculation that needs to be done. All of those activities I did with Judith Siegel.

Consequently the specific arrangement with Watt was we would split the fee, which would be $150,000 a piece. Siegel was generally aware that I would be getting some out of the fee. She had signed that contract with Watt, so I presumed she felt comfortable in paying that amount as an overall lump sum.

Simultaneously Phoenix Corp. owed James Watt's corporation for his assistance on other projects $19,000. One of the projects of that $19,000 was the project which has been mentioned in New
Haven, CT, which had nothing to do with HUD. It was not a Section 8 deal. It didn’t go ahead to fruition, but we did receive a retainer from the client on that project because we went up to New Haven. We met with architects, the city. We were designated the preferred developer. Watt attended with us, that set of meetings. He went to the site with us, etc.

So even though the project didn’t go to fruition, Judith Siegel got $5,000, I got $5,000, Jim Watt got $5,000 from a $15,000 retainer. That was just to give you an example, $5,000 of the $19,000 that we owed.

Mr. LANTOS. Mr. Strauss, Mr. Watt testified that in early 1985 he met with Secretary Pierce to discuss a project in Puerto Rico. It is my understanding that you accompanied Mr. Watt to HUD headquarters but didn’t attend the meeting with Secretary Pierce, is that correct?

Mr. STRAUSS. It may be, but I don’t recollect. I know that I was not at a meeting like that.

Mr. LANTOS. Do you recall what Mr. Watt was lobbying Mr. Pierce for with respect to Puerto Rico?

Mr. STRAUSS. Yes, sir.

Mr. LANTOS. Will you tell us succinctly what that was?

Mr. STRAUSS. It was similar to the Maryland project. Of course I wasn’t at the meeting. What we briefed Secretary Watt on and what we expected him to tell Secretary Pierce was that the island of Puerto Rico, of which 62 percent of the entire Commonwealth is below the United States national poverty limit and is on food stamps and by any objective criteria is greatly in need of some amount of assistance—of course the fair share regulations, depending on how you want to look at it, we felt had been suspended. The nation seemed to feel had been suspended. We felt that it was golden opportunity.

Under the National Housing and Community Development Act of 1974 there were five criteria which I don’t think have been discussed in front of the committee yet, but are very, very relevant and had been applied during the fair share years. Then later, in the years after, what the Inspector General calls significant changes made within the program, that was in essence the reestablishment or the reuse of these five very important criteria. Puerto Rico fit all five in a big way.

Mr. LANTOS. Mr. Strauss, did your company hire other individuals to lubricate projects at HUD, or was Mr. Watt the only one?

Mr. STRAUSS. No, he was not the only one.

Mr. LANTOS. What other individuals did you hire to push your projects at HUD?

Mr. STRAUSS. The ones that come to mind off hand, sir, are Jerris Leonard, an attorney in Washington.

Mr. LANTOS. What did he do for you?

Mr. STRAUSS. He did the same thing as Mr. Watt. He would call the agency. I don’t know who he met with specifically, and I don’t believe it was the Secretary, but I am not sure. He would go to HUD on our behalf. He would find out what intelligence information was to be found. He would ask about when a funding round might occur.
Mr. LANTOS. Couldn't you find this out by yourself, all of these items?

Mr. STRAUSS. Yes, sir. Without knowing the specifics, I knew generally in the street it was widely known and widely "accepted," if I could use that word for this conversation, fact that there were what I would call very heavy hitter political consultants regularly involved in this program. All I wanted was fair consideration. Because I tell you now, Congressman, in every bit of sincerity, I would put up our projects against anyone's projects in the United States. I'm not going to tell you we would always win. Of course we wouldn't always win. But we would certainly be up there in the rankings, sir, both by the objective criteria that the program is evaluated by Congress, that is, these five criteria, and the specifics of that particular project.

Mr. LANTOS. Is it your testimony that you had outstanding projects but without these very heavy hitters you couldn't have the projects approved?

Mr. STRAUSS. That's what I felt, sir. Yes.

Mr. FRANK. May I ask one question?

Mr. LANTOS. Please.

Mr. FRANK. Did anyone ever bring to you a project and you turned it down because it didn't live up to your high standards?

Mr. STRAUSS. Absolutely, sir. We have been trying to look through the records. If someone came and it was real slipshod type thing or we really couldn't do it, we really wouldn't save much. But it appears that the ratio was about 4 to 1.

Mr. FRANK. Do you have a list of some of these that you turned down?

Mr. STRAUSS. Yes, sir. And in addition, ones that might have gotten funded but then the funding never went to us. In other words, for whatever reason, the local housing authority made a decision that we were not the best person. In fact, in some cases we were number two. Number one got it. It wasn't us.

Mr. LANTOS. What other heavy hitters did you employ?

Mr. STRAUSS. Watt would be the only one I think would classify as a heavy hitter. What I was saying to you is I was aware on a national basis what if we wanted to be in this business we were up against. We were up against what I consider very, very powerful people. It was known.

Mr. LANTOS. Whom else did you employ to push your projects?

Mr. STRAUSS. Jerris Leonard, who I told you. Tom Evans. Mark Holtzman helped us on one project, I believe. David Carmen helped us on one project.

Mr. LANTOS. Can you describe that project and what Mr. Carmen's responsibility was?

Mr. STRAUSS. His responsibility was to try and get the attention of HUD.

Mr. LANTOS. What was the project?

Mr. STRAUSS. The project was in Puerto Rico. I would have to look at my records to give you the specific one.

Mr. LANTOS. Was it successful?

Mr. STRAUSS. Yes, that was successful.

Mr. LANTOS. What was Mr. Carmen's fee?

Mr. STRAUSS. $25,000.
Mr. LANTOS. To the best of your knowledge, what work did he perform for that fee?
Mr. STRAUSS. He would have lobbied or influenced or contacted HUD on our behalf.
Mr. LANTOS. Whom?
Mr. STRAUSS. I don't know. We told him the virtues of the project. He was chosen by us because I believed he had much better contacts than I did.
I just want you to understand I am not a major contributor; I am not a fund-raiser. Maybe major isn't even appropriate. I am not even a minor contributor, really. Other than one personal friend who was running for Congress who I really like and respect and I would have supported him no matter what party he ran on, I don't think we have given more than a $250 donation to anyone in politics.
Mr. LANTOS. Are you suggesting you have to be a major contributor to get projects approved?
Mr. STRAUSS. I think that people who are politically known, who are, however you might use the word, influential in this town had an absolute entree in the way that this program was being run, and that is what I think was bad about this program. Because if I had had an opportunity in some way to participate and not be looked at from politics at all, again, we wouldn't have won them all, but if we put in 100 we might have won 50 or 60 or 70. It was the methodology of going about it. It was the methodology of engendering local grass roots support.
Mr. LANTOS. Did you hire anybody else to push projects?
Mr. STRAUSS. I don't believe so.
Mr. LANTOS. Does the name Ben Waldman mean anything to you?
Mr. STRAUSS. Yes.
Mr. LANTOS. Did you hire him to push a project?
Mr. STRAUSS. Yes, we did.
Mr. LANTOS. Would you tell us what the circumstances were?
Mr. STRAUSS. It would be the same thing. He had White House experience. He was very well connected politically, but again, not at what I would call anything like the Jim Watt level. He had awareness of HUD. We didn't know him, but he had been employed at HUD, I think, at one point.
Mr. LANTOS. To the best of your knowledge, did he play a role in the appointment of Mr. Tom Demery as Assistant Secretary for Housing?
Mr. STRAUSS. Not to the best of my knowledge.
Mr. LANTOS. To your knowledge, did he become a fund-raiser for F.O.O.D. for Africa subsequently?
Mr. STRAUSS. I believe that he briefly, for a matter of a week or two may have had some involvement, but I believe after that he went to the Robertson campaign and had no further involvement with that institution. I say that only based on what I have read in the reports.
Mr. LANTOS. In preparation for this hearing did you gather a list of all the projects you had which were successful with HUD?
Mr. STRAUSS. Yes, sir. I think so.
Mr. LANTOS. How long is that list?
Mr. Strauss. Of all projects?
Mr. Lantos. All projects you did with HUD.
Mr. Strauss. It is fairly significant.
Mr. Lantos. Several pages?
Mr. Strauss. Well, yes. I have separated it to several pages. But I can tell you totals to just give you a quick summary.
Mr. Lantos. Please. And then for the record, will you submit the detail to the subcommittee?
Mr. Strauss. Sure.
[Information appears in the appendix.]
Mr. Strauss. I have got a UDAG list here. We represented 18 clients for a total of 26 UDAGs or UDAG-related matters; legally binding commitments; other things that were required. I want to say that I am not sure these numbers are exactly precise.
Mr. Lantos. That they are ballpark figures?
Mr. Strauss. I hope they are better than ballpark.
Of that, we prepared applications on 13 of those. We represented at HUD, that is, physically went into the agency, on 20 of those. In other words, special negotiations or contracts that had to be signed. Of those, we had six funded; a total of six were successful.
Mr. Lantos. What was the total value of those projects?
Mr. Strauss. In each of the cases we took initial retainers from these clients. If we were actually successful going through the whole process, because the UDAG process is split into many different phases of effort, we would have landmarks of other payments that were due to us. I don’t know, sir, what the breakout is on the numbers.
Mr. Lantos. Can you give us a ballpark on that?
Mr. Strauss. I really can’t, sir.
Mr. Lantos. You will submit that in writing when you have an opportunity to develop those?
Mr. Strauss. Yes.
In the transfer of physical assets area I have a summary. We represented 15 clients. We received a retainer from each of the 15 clients, which is the way that we worked in all of those cases. We submitted to the agency nine workouts. In other words, the last step in a TPA process is an application for a workout. We had three of them approved and we actually only closed two of the three. On those, Jim Watt was a consultant on two. One was funded, one was approved, and one was not.
Mr. Frank. May I ask a technical question?
Mr. Lantos. Please.
Mr. Frank. When you are talking about the transfer of physical assets, did you represent the ultimate buyer or did you represent the holder who was in default?
Mr. Strauss. The breakout, Congressman, would be about 90 percent buyers. Maybe more.
Mr. Frank. You were not representing on the whole the person who was the original borrower who was in default?
Mr. Strauss. Not usually. Let me just explain why, because I think it’s important. When the original borrower is in default there are claims usually made by HUD of some impropriety on that person’s behalf.
Mr. Frank. Sometimes he’s just not paying the mortgage.
Mr. STRAUSS. Sometimes they didn’t pay anything for ten years on the mortgage. I had a case where someone came into my office and said, here’s my mortgage. I got a letter from a United States Attorney telling us they’re going to foreclose on this project. The Justice Department was the entity which handled that for HUD. How can we work this out? Can I give them a year’s payments? Can I give them two years’ payments? Can I give them three years’ payments?

I didn’t physically throw them out of my office, but essentially I said, you’re out of your mind. The first criteria that HUD is going to look at, No. 1, is that before you can even get paid anything to sell this to anyone every penny of the debt has to be paid to HUD. And HUD wasn’t just using the debt that started by the non-mortgage payments. They added on the security guards, the per-unit per annum.

So for the most part in those cases of TPA’s we were representing the new owners, because then you could sort of ride in on a white horse and say here’s Mr. Clean, he hasn’t anything to do with this project, these are his financials, this is what his proposal is, and here is a new contract.

Mr. FRANK. There was a change in the TPA’s. At some point we began to impose restrictions. When I first came here HUD’s effort with the transfer of physical assets was just to sell them and maximize its income from the sale.

Mr. STRAUSS. They were giving them away, sir. Giving them away. In other words, sometimes they would have an auction process where they would take the highest bid, but on a regular basis they got beat at those auctions, because these are problem projects. I think that the calculation we did when I was at the agency, sir, was 3 cents on the dollar back to the taxpayer.

I sort of lost my train of thought. I was telling you about TPA’s.

Mr. LANTOS. Yes.

Mr. STRAUSS. We had the three approved and two actually closed, Watt being a participant, a consultant in two of those, and one of those was approved and closed. The other one was never approved or closed.

Mr. LANTOS. What was your salary when you left HUD?

Mr. STRAUSS. Approximately $55,000 a year.

Mr. LANTOS. How long were you in the business of working with HUD outside in the private sector?

Mr. STRAUSS. Approximately six years, from 1983 and a half to about 1988.

Mr. LANTOS. Working with HUD, what were your outside earnings?

Mr. STRAUSS. I can give you a breakout of years. The total I made over a five- to six-year period was approximately $950,000, personally. Gross. It boils down to about $160,000 a year for those years.

Mr. LANTOS. And your company?

Mr. STRAUSS. The company grossed in that same period of time about $4 million. That is on everything, sir. That is not just HUD business.

Mr. LANTOS. How much of that was HUD-related?
Mr. Strauss. I am really estimating, sir, but I would say about 80 percent was overall HUD-related.

Mr. Lantos. I only have two brief questions. It is my understanding that on two projects you were involved with, one of them called Four Seasons in Gastonia, NC, and the other called Cityside Apartments in Trenton, NJ. Ms. Dean and Mr. Demery disagreed about whether to fund the projects and they were approved shortly after Ms. Dean left HUD. Is that correct?

Mr. Strauss. I don't believe so, sir. I am fairly certain they were approved while she was there, but I don't know anything about disagreements between her and Mr. Demery.

Could you tell me when Ms. Dean left HUD? Maybe I could answer you more quickly that way. I'm not sure I have my dates here.

I believe that those were funded while she was in the agency, in answer to your question.

Mr. Lantos. Is this the first time you have heard that there was a disagreement between those two individuals on the propriety of funding those projects?

Mr. Strauss. Absolutely. It is interesting that you chose those two projects, Mr. Chairman. One of them, the Trenton project, was funded after a visit by Congressman Chris Smith with the mayor of Trenton, with members of the town council, who all flew down to Washington, DC, without being solicited or spoken to even by us. They had a congressional delegation go into HUD. They met with HUD officials. They extolled the virtues of the project, being in the State capital and it was a crack house type situation, et cetera. And they, without me, were able to convince the agency. There was no consultant on that project.

Mr. Frank. No fee for them?

Mr. Strauss. No fee. None whatsoever. Frankly, I would like to do it that way all the time.

In Gastonia I personally looked at that application and I worked it with Judith Siegel. If you look at that application, you should draw your own conclusions as to its merits, especially in light of all other projects that were funded at any time.

Mr. Lantos. You have observed the Moderate Rehabilitation Program both as a private developer and as an insider at HUD. In your view, how could we improve the selection process?

Mr. Strauss. Do you really want me to be very specific about that? I have a specific statement to make. Well, let me summarize and that might help.

This is the only program if the Congress is interested in rehabilitating housing that I am aware of that will ever get to rehabilitate that housing.

Mr. Lantos. You disagree with Secretary Pierce who wanted to eliminate the program?

Mr. Strauss. Yes, I do. I absolutely disagree with him.

Mr. Lantos. You disagree with the previous administration that wanted to eliminate the program?

Mr. Strauss. I disagree with the previous administration that wanted to eliminate the program. Absolutely.

Mr. Lantos. You think the program, without the abuses, is a worthwhile program?
Mr. Strauss. It is the only program that will get to the objective that Congress sought when it created it.

Mr. Lantos. Mr. Pierce testified before this committee as we were exploring these scandals that he always wanted to eliminate this program. Some of us suggested to him that maybe the programs were very worthwhile only they were riddled with influence peddling and mismanagement and that was the problem, not the concept. Do you agree with that?

Mr. Strauss. I think you are absolutely right, Mr. Chairman.

Mr. Lantos. How would you improve on its management?

Mr. Strauss. I would attempt to remove the political decisions completely from this. I would do that with the following method. This whole program was supposed to be demographically based. You call it fair share. I call it demographically based. HUD needs to establish a process where those demographics are accurate. In some programs, like UDAG, they wait every ten years until there is a new census to update their information. So you might in the 8th, 9th and 10th years be doing something that really isn’t within the initial ambit of what Congress intended.

I would publish nationally in the United States and I would use every effort that I could to get it well known to developers, public housing authorities, participants in the program that funding is available, that it will be made available in the following amounts and in the following communities on the following dates.

I would solicit proposals by advertising from as many qualified developers as I could get. I would have the public housing authority rank and rate each of those in a demonstrable, uniform criteria. There are no such criteria. There are no regulations now at HUD that really govern how the PHA makes its selection criteria. So one might say we’ll pick all the people under 5 feet and the others would be over 5 feet. You need to have a consistent, uniform thing so that if a developer from California wants to for some reason do a project in New York, he knows what the criteria are, he knows how to meet them, and he knows if he doesn’t win that award, he will get at least fair consideration and he will know where he rated among the other people.

Then, on a limited geographical basis, that is, some subcomponent of a statewide basis, possibly on the PHA level, I would put the already qualified applications that have been ranked and rated by the PHA, put the top ones—because you know you will not get very deep in the funding; there just isn’t that much money that the Government is putting into this program now—and I would put them in a hat or I would put them in some method of drawing these out. Because you know no matter which one you picked you have got the right area, the right amount of funding, the right subcomponent of the demographic criteria, and there are no politics involved in this at all. There are no committees, there are no individual decisions. All of that is gone. Yet, you are not doing it on a national basis where some area might lose out.

So you are hitting fairness on two levels, fairness on the local level and fairness on the selection level. You wouldn’t know what party if any anyone belonged to. You wouldn’t know who their contacts in Washington were. Or their lawyers, for instance, wouldn’t
be particularly important. The traditional Washington lobbying set wouldn’t be able to get their hands on it.

Mr. LANTOS. To paraphrase you, you would establish a geographic breakout. Then you would establish objective criteria, take whatever top three or five projects there are in each region, and then you would go to random selection.

Mr. STRAUSS. Yes, sir, with a backup in each case. In other words, if you thought you might fund three projects in Manhattan, for instance, you would select six. Sometimes they fall out.

Mr. LANTOS. This may be one rational way of going at it. There are many others. It is certainly not very complex. Why during the eight years did we not get any rational, clean, nonpolitical process come out of HUD?

Mr. STRAUSS. I can’t answer that, Congressman.

Mr. LANTOS. I think you can.

Mr. STRAUSS. I would say that if an agency doesn’t do something it is because it doesn’t want to do something. You only get a result when you put out an effort. You only get quality when you look to get quality.

Mr. LANTOS. Is it your testimony that the agency did not want an orderly, objective, nonpolitical process? Is that what you are saying?

Mr. STRAUSS. I wouldn’t quite go that far.

Mr. LANTOS. Go as far as you want to go.

Mr. STRAUSS. I would say that these ideas that you and I are discussing now, they are not——

Mr. LANTOS. I understand. My question is, why didn’t the agency implement some objective, measurable, nonpolitical, clean system of selection?

Mr. STRAUSS. They didn’t make the effort. They didn’t seem to make the effort. I wasn’t there. I wasn’t part of the process when I was there.

Mr. LANTOS. Would it be fair to say that the agency at the top level liked the process that was in place?

Mr. STRAUSS. I couldn’t characterize it that way. I could not say to you, for instance, that Secretary Pierce liked it the way it was.

Mr. LANTOS. Would he have had the power to change the selection process, Mr. Strauss?

Mr. STRAUSS. Yes, he certainly would have had the power.

Mr. LANTOS. He had every power to change the selection process?

Mr. STRAUSS. Yes, sir.

Mr. LANTOS. And he didn’t.

Mr. STRAUSS. Yes, sir, that’s correct.

Mr. LANTOS. Congressman Lukens.

Mr. LUKENS. Thank you, Mr. Chairman.

I have two angles I am going to pursue. The first will be an attempt to cloak these proceedings with a greater degree of impartiality or bipartisanship.

A 1973 American Enterprise Institute study called HUD’s 235 Rehab Program an open invitation to fraud. Do you think that is an apt description of today’s program?

Mr. STRAUSS. Fraud, no. Mismanagement and that kind of thing. I don’t know if I would use that as a term of art.
Mr. Lukens. I know you are very young, but you also are now an expert in housing. Do you think that study describes the previous administrations? In 1973 they obviously described both the efforts of the administration and the system at that time. Do you think the system has improved?

Mr. Strauss. Are we talking about the 235 program now?
Mr. Lukens. We are talking about housing programs in general. I started out with the 235 Rehab Program.

Mr. Strauss. Sir, I am a housing expert but I am not a historical housing expert. I really don't know much about what happened before me. I would say this. You get what you put in. You get out the effort that you put in. You get quality based on effort. This is not the art of medicine where our best brains guess at the best answers. This is not like calculus. This is housing. This is poor people who need something yesterday, not tomorrow. I think that an agency has a responsibility to deliver.

Mr. Lukens. Let me move forward chronologically. A 1978 editorial: "A significant chunk of HUD money appears to be benefitting not the poor, but the banks, private investors, consulting firms, and university researchers."

Is that a true statement describing today's programs?
Mr. Strauss. I missed the first few words, sir.
Mr. Lukens. "A significant chunk of HUD money appears to be benefitting not the poor, but the banks, private investors, consulting firms, and university researchers."

Mr. Strauss. That is probably fair in a general sense. I always thought that HUD was doing a lot more research. I wondered sometimes how I could explain the research to the person who wasn't in a house.

Mr. Lukens. Let me move forward again. Another news item: "Section 8 program administered by the U.S. Department of Housing and Urban Development is a low-risk enterprise with big rewards for developers who are granted a variety of financial incentives to attract private capital for individual projects."

Is that a true, accurate portrayal of the program?
Mr. Strauss. I think so. I am trying hard to follow you, sir.
Mr. Lukens. I am coming to a point. I am coming from a perspective of looking at HUD over a period of years and I am trying to take a hard look at the system involving both Democrats and Republicans, both administrations. The whole system is open to this kind of misuse and abuse.

If not one more unit of Section 8 housing is ever built, the Federal rent subsidy commitment over the next 40 years, the average life of a building, for existing projects nationwide would be $231 billion, according to a GAO report.

Mr. Strauss. That sounds like an old number, but I would go along with it.
Mr. Lukens. It is an older number.
Mr. Strauss. It sounds like about six or seven years old to me.
Mr. Lukens. It is an older number, but we are moving forward into modern times.

"Developers are charging excessive rents, sometimes more than double what the rent for which a comparable privately built project would rent for."

Does that statement describe the program?

Mr. Strauss. There are some problems with that one. There are some significant technical problems. There is some general truth to it, but you need to understand that there is a major issue right now, which will probably be litigated in Federal court, so we will all find out what the answer is going to be.

Congress created the FHA regulations and their applicability to rent and Congress created the coinsurance regulations and their applicability to rent. The two do not match. You cannot use them in tandem. That is a major, major, major problem. Because sometimes the Department decides in one favor and sometimes they go the other way. It is not even as if they say, well, in all cases where there is a conflict we'll go this way. So you don't even know.

Mr. Lukens. I am not looking for an in-depth explanation, although I appreciate what you are saying. I find myself tending to agree with it. I am trying to consider the points about the inadequacy of the program over a long period of time that has now brought us to the point where we are today.

Mr. Strauss. Yes, sir.

Mr. Lukens. Would you say, though, I could change that statement to say that rents are basically higher? If the rents are not double, they are at least higher than the private units?

Mr. Strauss. In some cases that is true.

Mr. Lukens. Is it generally more true or not?

Mr. Strauss. I wouldn't want to mislead the Congress, sir.

Mr. Lukens. Do you know of any instance where Government housing is cheaper than the privately built housing?

Mr. Strauss. No, but I do know of many where they are specifically about the same.

Mr. Lukens. "Inadequate monitoring of tenant selection has resulted in favoritism, racial discrimination, and outright fraud by accepting ineligible tenants."

Mr. Strauss. I would say that is true, and it is my understanding that HUD has made some effort to clear that up. I understand the Inspector General has been in the past very active in pointing out problems in that area, and I think they are valid problems that they have pointed out.

Mr. Lukens. What about failure to meet the needs of low-income and minority families? Most developments have been built for the elderly because those projects are less controversial and easier to win local approval for.

Mr. Strauss. That is true.

Mr. Lukens. For the record, Mr. Chairman, I would like you to know that I am reading from the Boston Herald-American for the most part, describing programs existing in the State of Massachusetts under a prior administration. I am not selectively picking out that fact, but reporters from the Boston Herald-American made an excellent effort in a series of articles exposing the basic failure and weakness of the housing program. I want to bring a sense of historical perspective to this hearing.

Now I would like to zero in on your role in this area. I think everybody involved so far in these hearings met before. I don't know you—I think they are decent, saw an opening to make some good money, which is the old American dream. It is public money and
Unfortunately we apparently have a system that is wide open to abuse by almost anyone with political contact. Since those of us sitting here deal with political connections every day, I think we well understand when someone says yes, it was the person's political connection we were buying. At the current time it is not illegal although it may be questionable. It certainly has turned off some people on this committee, including myself. But it is the system.

I was very intrigued with the chairman's excellent handling of this hearing thus far, particularly his last closing question. Would you eliminate all discretionary usage of funds? Discretionary funds make up about 15 percent now and most of the abuse has occurred in the last several years. Would you eliminate any Secretary's future use of discretionary funds? Is there a need for that provision?

Mr. Strauss. Yes, sir, there is a need for some small amount of discretionary funds in the Secretary's office. I do firmly believe that.

Mr. Lukens. Would you venture a percentage?

Mr. Strauss. It depends on the program, but I would say if we are talking about mod rehab, which is obviously the subject here, I think we are probably talking about 4 or 5 percent.

Mr. Lukens. Not 15 percent though, as I understand is the current provision?

Mr. Strauss. I don't think so. My reasoning behind what I say to you is that would be the natural disaster, the major exigent circumstances surrounding vacating a project of many hundreds of units, that kind of thing. I think it would be important for the Secretary of Housing to be able to make a determination on strong, well-researched criteria and grounds that can be shown to members like yourself and get applause instead of boos as to why that is done.

But yes, I do feel there is some need for discretion.

Mr. Lukens. But even then, I assume that you would recommend some kind of screening committee before the Secretary would make the actual decision. Perhaps some kind of filtering process could be instituted so that if he had 17 applications they would recommend three, any one of which would meet all these criteria? You are talking about a laudatory program. That would fall into that category. The Secretary's hand would be tied to a certain degree, but he would have an element of choice.

Mr. Strauss. Something like that, sir, yes. I think that is generally correct.

Mr. Lukens. Let me go back to what you inherited when you arrived at HUD. You are young, were basically inexperienced, but obviously very talented, and I stand in respect and awe of that fact. I think your testimony today has been one of the most enlightening I have heard during this series of hearings, and I think it has been very forthright.

I am interested in how extensive the disarray was that you think you inherited or saw. I wonder if you could dwell a little bit on the mortgages that you said were piled up or were located in an open vault, security being lax and condemnable. What numbers were involved? Was there a simple blockade of all action on those mort-
gages? What caused those mortgages to be able to just sit there and languish, apparently without attention?

Mr. Straus. If I wasn’t going to be plagiarizing, I would like to borrow the chairman’s frequently used term, but very, very accurate. It boggles the mind, with three “g’s” instead of two.

Mr. Lantos. That is a patented phrase, Mr. Strauss.

[Laughter.]

Mr. Straus. It applies as much if not more in this case than in any case I have heard the chairman use it. It is the quintessential description of what I saw in that area. Of course I was not active in other areas, funding or program areas. It was truly mind-boggling. The Secretary, to my knowledge, was the largest holder. I mean by name, not as Samuel Pierce, but whomever might be in the job of Secretary. When a project goes belly up and gets into foreclosure the Fannie Mae or Ginnie Mae insurance claim is tripped and HUD pays cash money to Ginnie Mae or Fannie Mae and the mortgage goes back to the Secretary. Somebody takes it and they stick it in the vault there and it sits and it becomes a home for bats and spiders.

The problem is that it grew and it grew and it grew and it grew, and it grew completely out of control. The people at HUD, specifically the career people—there were no political people involved in this really, perhaps other than myself—were really dedicated people. Or are, I guess. Most of them are probably still there. Very enforcement minded. So they would take each case and want to apply the very best deal almost if they owned it. They were trying to get the best deal for the Government, for HUD. And that works, but it doesn’t work when you have 10 or 15 or 20 people working on a million delinquent mortgages. It does boggle the mind.

Imagine this. There was no list that we were ever able to be made aware of of what HUD owned. How could they even have asked for payment? Talk about being open for fraud or abuse. What incentive other than his own heart would an owner have to ever make a payment when he knows that 50 owners around him have been going year in and year out without ever making a mortgage payment?

I hope that because of what I did at HUD and what other people did after I left that that has changed a little bit. Frankly, in the last couple of years I haven’t really looked at these figures, so bear with me when I say that they are not up to date or fresh. Congressman Frank says that there were hearings on this transfer of physical assets issue. He might have a better or more accurate idea. I don’t know when those hearings occurred.

Mr. Lukens. For the purpose of the uninitiated and laymen, of which I am certainly counting myself as one until the advent of these hearings, can you give me some kind of frame of reference as to what percentage of total HUD action was wrapped up in that vault, represented by all those mortgages just sitting there? Is that 10 percent of HUD action? Twenty percent of HUD action?

Mr. Straus. I don’t know, sir. I am so unfamiliar with so many of the major funding programs at HUD in terms of quantitative analysis. I don’t know.
Mr. LUKENS. Let me approach it step by step. The mortgages were mortgages of what properties, under what program, or were they a mixture of several programs?

Mr. STRAUSS. Mixed. It would be all defaulted HUD projects. Anything that tripped the insurance claim.

Mr. LUKENS. Were they separately stacked?

Mr. STRAUSS. They weren't stacked when I saw them, sir. Some were on the floor; some were on shelves. They were there.

Mr. LUKENS. Were these active mortgages on which payments were due to the U.S. Government?

Mr. STRAUSS. Yes, absolutely.

Mr. LUKENS. How many mortgages were involved? One thousand? Ten thousand? 1 million?

Mr. STRAUSS. Many more than 10,000.

Mr. LUKENS. About 30,000 or 40,000 mortgages?

Mr. STRAUSS. It might have been more than that, sir. I know where to go to get the information. I just don't have it at my fingertips.

Mr. LUKENS. Mr. Chairman, would it be possible to try and get a handle on that kind of information?

Mr. LANTOS. We shall make every effort, Congressman Lukens.

Mr. LUKENS. What did you do in an attempt to organize that chaos?

Mr. STRAUSS. Start from the ground up. Shake the whole system out. Find out what was being done so I knew what not to do in the future.

Mr. LUKENS. Would you mind walking through that system? First you sorted them out?

Mr. STRAUSS. No. We didn't start with the mortgages first. First we started with the process, how to identify value in these projects. Everything is constantly changing. Once a landlord had no incentive to pay HUD, and frequently he wouldn't have any incentive to pay his local taxes, so local taxes would increase, and they would need kind of a tax abatement, and they knew that in the prior years—this is not a partisan comment at all—

Mr. LUKENS. Going beyond the previous four years?

Mr. STRAUSS. It would be both. It would go back. I think we are going back to 1970 or before. I believe I worked on 1967, 1966 type projects. So this is old stuff.

Mr. LUKENS. Your impartiality has been established.

Mr. STRAUSS. The procedure was nonexistent. There was no method of identification. If you don't know what you own and you don't know what is supposed to be paid, you certainly don't know what physical condition it is in. The HUD area offices have a staff of career MAI appraisers, architects, engineers, people who can go to a project and do a punch list. But that takes time. You can't take the whole staff, pull them out of all the other programs that they are giving that input into and just put them here. I think I recall seeing an Inspector General report, which I agree with, that says that this is underfunded, undermanned, undereducated, if you will, in terms of training effort on HUD's part and that the only way to solve it would be to make that system better.

In any event, I was able to use the Office of the Secretary to put together a group of maybe 10 or 12 career people to move on this.
We established a process that I think was a fair and equitable one to everybody except an owner who had not been making his payments. Then the career people went in and did their vault work, so to speak. Then they picked up the mortgages and they on-loaded everything on to computers, which I believe is the case now.

I believe after I left that because of the enforcement minded attitude of some very specific individuals I can think of in the Office of General Counsel they were able to make a dent in that problem, and it may have been a very significant dent.

Mr. Lukens. Can you make me feel a little bit better at this time? I have had a sinking heart during most of the hearings as to the operation of HUD over its history. Do you think the system you left in place still survives or is better than it was when you came, that they at least now can count the number of mortgages and that they are no longer piled up in a vault?

Mr. Strauss. I believe when I left the Department that program went from a 1 to a 100. I don’t say that in any self-serving way, because the credit doesn’t go to me. The credit goes to the career people who did the day-to-day hard work, and the lawyers there. It was their effort. I was at meetings, but they would go back and they would do the grunt work and they would put this thing together and they would use their brains. It was just a lot of effort. These were HUD employees who were regularly in the office at 6 o’clock at night. Not the traditional kind of thing that some people think about some Government employees. They were very dedicated, and they deserve the credit for that.

Mr. Lukens. Let me go to your letter at this time for a specific question. The chairman very appropriately raised the issue of your rather generalized condemnation of HUD employees. I read it a little bit differently, and I just want to give you a chance to further clarify it, with all due respect to everyone involved.

It says in the second paragraph, “In each of the above-listed cases” Phoenix has had these problems. Are you saying that in the other cases you handled in HUD that the process seemed to work, you won some, you lost some, but the process worked, and in these four specific cases there was a problem?

Mr. Strauss. These were early cases, but the answer to your question is yes, sir. Some cases went well. That could be in the beholder, of course. And some did not go so well.

Mr. Lukens. So your rather scathing criticism of the employees, officials, staff and executive branch appointees applied generally, but only to these people involved with these particular projects, not every project you dealt with at HUD?

Mr. Strauss. As I said, Congressman Lukens—

Mr. Lukens. I am trying to give you an out.

Mr. Strauss. I understand. I also don’t want to take exception with the chairman to the point that I agree with him. That is a scathing statement, I guess you could say. This letter was borne out of frustration, and I take the responsibility for writing a letter and signing my name to it. I felt that way at the time, and looking back, I still feel that I was being in those cases unfairly treated on the merits.

It just so happens the first one cited on there, our file on it is about 700 pages. It took 18 months to resolve. It’s a project which
was in 1976 abandoned by its owners in New Jersey. The owner ended up literally in an asylum. My client found him, obtained from his guardian ad litem, I guess, a written acquiescence to purchase the project.

We went into HUD. We said you're spending something like $35 or $40 per day per unit in an unoccupied project that has been unoccupied for 8 years. Eight years. Armed guards patrolling around it. What exactly is your intention with this? Do you want to demolish it? Is it something that can be used? It took us still 18 months to put that project together with the agency.

Mr. Lukens. To summarize this specific area of testimony, without being inaccurate, you have just rather vigorously commended the work of some HUD employees who helped you to clean up the leftover mortgages in the vault. So obviously there you had mixed feelings. But at the time the letter was written you felt very strongly that basically across the board you were meeting this kind of resistance and inability to comprehend what you were trying to accomplish by just not answering phone calls and not being cooperative.

Mr. Strauss. Yes. And I think morale had something to do with that too, sir. I think from the top on down you have to send a message.

Mr. Lukens. You mentioned that you addressed three major areas when you first went there. One is classified, the FEMA coordination.

Second was the first one you mentioned, the mortgage maintenance program that you went into, and you have described that in some detail.

The third area, as I understand it, had to do with a consistent policy being established. In what regard? Overall? Administrative procedure? Internal procedure? What are we talking about? Would you clarify this area, please?

Mr. Strauss. That was as it applied to the Immigration and Refugee Act of 1981, sir, and its impact on the Department. For instance, just a very simple question but a major one for the Department: Would people who were undocumented, not legally in the United States, be legally able to reside in public housing? They were so allowed until that point.

Mr. Lukens. Did that effort take a great deal of time?

Mr. Strauss. I recall putting significant time into it, yes, sir, because it required a lot of research. And we were writing for the President of the United States. I felt that that was something I really needed to put a lot of effort into.

Mr. Lukens. During the time you were at HUD, where was the GAO with its inspections and where was HUD's Office of Inspector General with its inspections? I am just fascinated by the apparent vacancy that must have existed. I would like to know if a live human being existed in either one of those categories where HUD was concerned.

Mr. Strauss. As it applies to the MRP program——

Mr. Lukens. Please define the term MRP?

Mr. Strauss. Section 8 Mod Rehab.

My understanding is that in 1980, approximately, it went coast to coast, New York to California, Wisconsin to New Mexico. Subse-
sequent to that the General Accounting Office, the investigative arm of this Congress, did a major report, which essentially said the same thing that the Boston Herald reporters had said. It backed it up.

While I was not involved in this program at the agency, I never heard that from anyone until well after I left. In fact, I didn’t see some of that article until recently.

Where was the communication? It is my communication also. Where was the awareness of what was going on in this program when people were supposed to have been specifically aware of it?

Mr. Lukens. Let me ask you specifically about your comment that led to this particular question. You said you had some coordination with the IG at that time, that you worked in some manner with the in-house IG.

Mr. Strauss. Yes. Some coordination.

Mr. Lukens. What coordination existed between you and the IG? Obviously that person was responsible for internal monitoring.

Mr. Strauss. Let me clarify my relationship with the Inspector General. It was very, very, very restricted and limited to some items dealing with the personal protection of the Secretary and continuity of government. I did not have any kind of IG oversight, nor would the Inspector General ever have reported to me any program criticisms, because I guess they knew I wasn’t really program oriented or funding oriented. I would assume they would have gone to the Assistant Secretary for Housing or directly to the Secretary.

I see what your question is, but I just didn’t have that role of liaison.

Mr. Lukens. I accept the answer.

In regard to the wastepile of mortgages that apparently sat in the vault, once you found out about it and took steps to correct it what role did the IG play in correcting that situation, if any?

Mr. Strauss. My recollection from the time I was there was that the IG was generally cooperative. In other words, if I had gone to the Inspector General with a problem, I think they would have taken it seriously; I think they would have looked at it. But you see, they knew at that point that there were problems and that we were trying to rectify them, and I guess they gave us whatever assistance they could.

My understanding of the Inspector General’s actions is that they prefer to stay removed from the decision-making process so that later if it is necessary to be criticized they can do so from an independent standpoint.

It is my feeling that they would not have, for instance, had a person sitting in on those meetings and they wouldn’t have had anything to do with the signoff on that process. I know that sometimes they are asked to get involved. They were asked to get involved in the Section 8 process. I believe they were asked twice in writing to participate in the actual selection process, and they never did, they never would.

Mr. Lukens. Thank you, Mr. Strauss.

Apparently, Mr. Chairman, a great many people thought that if they removed themselves from any active participation in the busi-
ness of HUD they could sit back at a latter date from a detached point of view and analyze and summarize.

I find this testimony extremely disturbing and it furthers and deepens my belief that the whole HUD program, currently being looked at by Secretary Kemp, needs a total revamping. This problem obviously extends over many, many years, not just the last eight. Thank you.

Mr. LANTOS. Thank you very much.
Congressman Frank.
Mr. FRANK. Thank you, Mr. Chairman.

I am very proud of Massachusetts, but I don’t want it to get undue credit. The gentleman from Ohio said that he was quoting from the Boston Herald, but at least a couple of the quotes were from the Washington Times as well, so I do want to give the Washington Times due credit.

Mr. LUKESEN. I am delighted to accept the gentleman’s correction.
Mr. FRANK. The 1973 study which denounced HUD’s Section 235 Rehabilitation Program, harsh criticism of the Nixon administration, is one of several from the Washington Times.

Mr. Strauss, I should tell you that one of my other responsibilities is for what we call post-employment lobbying restriction legislation. I have some particular interest in the timing here. Let’s begin with Mr. Watt. He left the Secretaryship of the Interior on October 9, 1983. You approached him in February 1984, roughly. This letter is dated March 1984. Would you say it was about a month later?

Mr. STRAUSS. I believe it was the approximate time.
Mr. FRANK. When you were answering Mr. Lantos, you said, I thought, that you hadn’t originally thought about using him for HUD projects.

Mr. STRAUSS. No. I said I had not thought about using him exclusively for HUD projects or to have a relationship with Samuel Pierce. He never said anything about that to me. I felt that he could help us.

Mr. FRANK. He didn’t tell you that he knew his fellow Cabinet Secretary. Didn’t you guess?

Mr. STRAUSS. Yes, I guessed. I just want you to understand.

Mr. FRANK. That’s not worth mentioning. No one had to tell you that Secretary Watt knew Secretary Pierce. We have established that Mr. Reagan didn’t know Secretary Pierce. [Laughter.]

But Secretary Watt paid closer attention, in credit to him, and he knew Secretary Pierce. So obviously Watt knew Pierce and you knew Watt knew Pierce and Watt knew you knew that Watt knew Pierce, so no one had to tell you that.

Within five months of Mr. Watt’s leaving his job in the Cabinet you sent him this letter confirming an arrangement in which he would be paid to lobby his former colleagues. Is that basically correct?

Among the people whom you were critical of in this letter are executive branch appointees, that is, Presidential appointees. I agree that at the time it was not illegal. It should be illegal. The bill that President Reagan vetoed last year that I think just about everyone has voted for made it illegal and we are going to pass a bill, I believe, this year to make it illegal. Mr. Watt should not
have been, in a well-run system, for hire to lobby his co-Presidential colleagues, and we will ban that. It was not, I stipulate, illegal at that time. It wasn’t right, but it wasn’t illegal. That is one of the examples.

Mr. Strauss. You’re correct, Mr. Congressman.

Mr. Frank. What grade level were you when you were a Special Assistant?

Mr. Strauss. I was a 15. I was not subject to the prohibitions.

Mr. Frank. You said you were there for two years and after about a year you began to think about leaving and setting up this business, I believe you said.

Mr. Strauss. I said that in my second year as it began to progress I began to think about the niche that would be in the private sector.

Mr. Frank. The niche existed because of how badly things were running, how hard it was to get things through?

Mr. Strauss. No.

Mr. Frank. When did you leave?

Mr. Strauss. I left in May 1983.

Mr. Frank. Your letter of March 1984 reconstructs conversations you had with Mr. Watt in February 1984.

Mr. Strauss. Yes, sir.

Mr. Frank. So you left in May 1983. By February 1984 you are telling Mr. Watt that, at least in these four regards, all the people involved are really doing a lousy job. We can check this, because one of the people who would seem to me to have been covered in this is Mr. Abrams, and we will get to him later. Mr. Abrams was an executive branch appointee with direct responsibilities during this time.

Mr. Strauss. In fairness, sir, I don’t think I was necessarily discussing Mr. Abrams in that regard.

Mr. Frank. Which executive branch appointees were you talking about?

Mr. Strauss. The levels below Assistant Secretary, I think.

Mr. Frank. By appointee do you mean Presidential appointee?

Mr. Strauss. No, I meant schedule C’s.

Mr. Frank. That is what you meant by executive branch appointee?

Mr. Strauss. Yes.

Mr. Frank. I thought you said officials, employees, staff or executive branch appointees.

Mr. Strauss. I don’t think it was a term of art I was using. I believe I was talking about officials.

Mr. Frank. So it wasn’t true of any of the Presidential appointees?

Mr. Strauss. I didn’t say that.

Mr. Frank. Was it or wasn’t it?

Mr. Strauss. In the letter I meant schedule C’s.

Mr. Frank. My honest sense is you probably don’t remember at this point what you meant in the letter five years ago.

My point is this. This is a pretty terrible situation you have described. Among others, you said legal claims of misfeasance or worse might be made. What do you mean by “worse”? Are you suggesting corruption in here?
Mr. Strauss. No, not corruption.
Mr. Frank. What's worse than misfeasance?
Mr. Strauss. Malfeasance, maybe. Nonfeasance, maybe.
Mr. Frank. I would think misfeasance would be worse than non-
feasance as we get into the feasance scale here. [Laughter.]
Nonfeasance is not doing anything; misfeasance is doing some-
thing badly; malfeasance is generally corruption of some sort, it
would seem to me. What is worse than misfeasance? Were you sug-
gestig criminal activity here?
Mr. Strauss. Absolutely not.
Mr. Frank. You said legal claims might be made. Were any legal
claims ever made for misfeasance or worse against HUD officials?
Mr. Strauss. I believe there was a legal action by one of those
clients after I had separated myself from them.
Mr. Frank. My inference is that Watt wanted this to cover up
basically the fact that he was going to be used primarily to use his
political influence, because he didn't know anything about housing.
That may be why he wanted it.
Mr. Strauss. Congressman, I just want to state one fact in re-
tion to what you said. Jim Watt had no input in that letter. He
told us he wanted a retention letter, and that was generated from
our office.
Mr. Frank. What did you think you were going to get from him?
Mr. Strauss. I thought it was going to get access.
Mr. Frank. Access to whom?
Mr. Strauss. To the halls of power.
Mr. Frank. No, no. You show your ID; they let you into the hall.
I hate metaphors. They mislead people. You don't want access to a
hall. You didn't want to use the facilities or the telephone.
Mr. Strauss. The people.
Mr. Frank. Which people? You are talking here about housing.
You wrote him a letter about four housing projects. You said HUD
stinks and this one won't work and that one is misfeasng and that
one is worse than a misfeasor and everybody that you mention
wasn't doing any good. Only on these four projects. Mr. Lukens
suggests the logical possibility that in every other way they were
sterling, but on these four projects they were abysmal. To which
people did you think Mr. Watt would give you access?
Mr. Strauss. Nonspecific people.
Mr. Frank. Nonspecific people? It sounds like the Secretary.
[Laughter.]
Mr. Strauss. People who make decisions, the decision-makers at
the agency.
Mr. Frank. I don't believe you, Mr. Strauss. I don't think you
are offering to pay Mr. Watt substantial money to give you access
to nonspecific people.
Mr. Strauss. I said decision-makers, Mr. Frank. I meant deci-
ision-makers.
Mr. Frank. Which ones at HUD?
Mr. Strauss. Anyone who had the ability to make a decision.
Mr. Frank. Who would they be? You had just left HUD. Who
were they?
Mr. Strauss. It is a large list of people, sir.
Mr. Frank. Would it be primarily the Presidential appointees? You thought Mr. Watt would have a particular entree into the GS-14's?

Mr. Strauss. Primarily the schedule C's.

Mr. Frank. So you hired Watt basically to give you influence with the political people. Did you approach any of these people yourself? Why did you need Watt? Why, having been Mr. Pierce's assistant, would you not have been able to do some of these things on your own?

Mr. Strauss. The impression that I had was that I was no heavy political hitter.

Mr. Frank. Had you tried beforehand? You had worked with some of these people. Had you tried and been rebuffed?

Mr. Strauss. No. In some cases I had tried and been successful; in some cases I had tried and been rebuffed.

Mr. Frank. Did you go to Mr. Pierce and say, Mr. Secretary, whom I served for two years, you have some very major problems on your hands, may I urge you to correct them? You encountered some very bad situations. Did you go to HUD people with whom you had worked and say let's fix it up, or did you say I had better hire Jim Watt and other people to take advantage of this or to deal with it? Did you make any effort to try and improve the situation that you found out in your private sector capacity?

Mr. Strauss. I never met with the Secretary to convey that.

Mr. Frank. Let me repeat the rest of the question. Did you make any effort to persuade people at HUD to improve this terrible situation you talked about?

Mr. Strauss. I think I had conversations with a number of people that I knew from time to time, saying that I thought this system was bad or that system was bad.

Mr. Frank. At what level would they be?

Mr. Strauss. They would be at both.

Mr. Frank. Who were they? Do you remember any of them?

Mr. Strauss. No, I don't, but I know that my attitude was an angry one.

Mr. Frank. Mr. Strauss, I am not into attitudes. I am asking you what you did about it.

Mr. Strauss. I am telling you that my recollection is I had discussions, but I don't recall with whom.

Mr. Frank. It does not sound like you made any concerted effort to try to improve this. You worked there for two years. We had questions before from the gentleman from Ohio which basically suggested that, well, this is the way things always were. The administration came to power and they said they were going to change it, they were going to improve things, they were going to impose efficiencies.

A defense that things were no different than they previously were wouldn't be very persuasive. I think they did get worse, by the way. The defense that everybody does it and therefore implicitly it wasn't quite so bad here, I reject that whether we are talking about people who beat other people or people who rob. The notion that we are all guilty and therefore no one is guilty doesn't impress me in any sphere.
I think it was probably worse here, from what I have seen and read in part. What we often have is a tug of war. We have people who are trying to defend the program's integrity and people who are trying to use political influence. In this case we had a one-sided tug of war. Because of the nature of the people who were in some positions at HUD there were not enough people there defending the integrity of the program. So the people who wanted to pull and haul seemed to have more influence.

That seems to be what your letter is suggesting. Your letter says that with regard to at least these four projects there was no legitimacy to the Department of Housing and Urban Development.

This is in the last year of Ronald Reagan's first term, less than a year before that term expires. More than three-quarters of the Reagan first term has gone by and what you say is that HUD has become, with regard to these four programs, worse than nonfunctional. You didn't make any concerted effort to try and alert these people, to tell them about it?

Mr. Strauss. Not a concerted effort, no, sir.

Mr. Frank. Mr. Lukens raised the question about these mortgages that were taken over because no one was making payments. In fact, that was probably not the problem, because they were foreclosed. I thought we were talking about mortgagee that had been foreclosed.

Mr. Strauss. Both processing and foreclosure.

Mr. Frank. You said that the system was improved, but we just heard from Marilyn Harrell that she was able to steal very large amounts of money within the last couple of years by not remitting basically what she owed HUD, having been their closing agent and having gotten this money in these sales.

Mr. Strauss. That is not the same program, though. This had nothing to do with the case that you are referring to now.

Mr. Frank. But she was dealing with HUD properties, different properties.

Mr. Strauss. I don't mean physically by name different properties. I mean a different program. I only know what I read in the newspapers, but from what I have read, that was not the same program.

Mr. Frank. I understand that. You were not dealing with all HUD sales. The program where you say you were able to make improvements was minuscule?

Mr. Strauss. No. A minuscule amount of the overall programs at HUD.

Mr. Frank. The hearings that this subcommittee had previously about the transfer of physical assets had to do with our efforts to prevent what we thought were derogation of the rights of the tenants, that we were opposed to sales of those assets without a maintenance of the subsidy. So it did not go directly to that.

I do have further questions, but we have a vote on. In the interest of that, I will defer.

Mr. Weiss [presiding]. Thank you very much, Mr. Frank.

I expect the chairman to be back here momentarily with some other members. What we will do at this point is take a five-minute break and he will be back before then to continue.

[Recess taken.]
Mr. LANTOS [presiding]. The subcommittee will resume its hearing.

The Chair’s understanding is that Congressman Frank has a few additional questions. When he returns we will give him an opportunity. We will now begin with Congressman Shays.

Mr. SHAYS. I would like to say for the record, Mr. Chairman, that I have met with Mr. Strauss. I have found him very cooperative and helpful in the questions I have asked of him, and I have spoken to him on the phone on a few occasions and also found him very cooperative.

I appreciate the fact that you are here voluntarily. I have a few questions that I would like to ask and very candidly tell you that you are really serving in some cases as reinforcement to what we have already heard about how the system works.

Judith Siegel made it very clear in her statement. She said, “In summary, then, do I think the selection process was good public policy? No. Do I think a more competitive process would have been better public policy? Of course. But the system was there. I followed the rules and I developed high quality, low income housing. Developers must not be blamed for the system they neither created nor administered.”

I gather that is your feeling as well.

Mr. STRAUSS. Yes, I agree with that.

Mr. SHAYS. She also said, though, that Mr. Watt was the right man at the right time at the right place. I had a pretty good idea of what she meant by that. What do you think she meant by that?

Mr. STRAUSS. I’m speculating, sir.

Mr. SHAYS. Do you think he was the right man at the right time at the right place?

Mr. STRAUSS. I think others could have done what he did.

Mr. SHAYS. Which was to do what?

Mr. STRAUSS. To access the Department of Housing and Urban Development and get attention. Fair consideration from my perspective and attention given to requests that were before the agency.

Mr. SHAYS. Don’t you think, though, it goes a little beyond attention? In other words, don’t you think it also meant that the Department would look to act favorably on his requests?

Mr. STRAUSS. At the time that I entered into the relationship with Watt I felt that there were no guarantees, but my hope was that he would have a positive effect at the agency. Yes, it would be unrealistic to say anything else.

Mr. SHAYS. I guess the point that I am a little unclear on as to how you feel is that clearly he was presenting an opportunity for access, but wasn’t he also enabling you to probably have a better shot not just at access, but at winning a funding?

Mr. STRAUSS. A better shot than I would have had alone, yes, sir.

Mr. SHAYS. Even if you had access?

Mr. STRAUSS. Yes, sir.

Mr. SHAYS. So your statement is that someone like Mr. Watt provided access and also provided a better shot at making your arguments?

Mr. STRAUSS. Yes, sir.
Mr. Shays. Deborah Gore Dean, and we have said this countless times, took the Fifth in the committee but was very willing to talk to the papers. We are constantly referring to the papers. I can't wait to have her come before us. She said it was set up and designed to be a political process: "I would have to say we ran it in a political manner."

That is consistent with what you feel about this program as well, at least as it was run out of HUD?

Mr. Strauss. Until the middle or so of 1987, yes, sir.

Mr. Shays. James Watt said it was common knowledge on the street the going rate was $1,000 to $2,000 per unit. Did you provide him with that information? How did he know what to expect from his working relationship with you and for helping to secure the Kingsley project?

Mr. Strauss. I may have confirmed it and then I did tell him what the gross receipts were on projects that we worked on, but they were not all $1,000 a unit.

Mr. Shays. It is clear that he had no technical expertise, and we don't need to document that. He has so much as confessed to that. What kind of work did you have to provide to bring him up to speed? What was the relationship that developed between the two of you?

Mr. Strauss. The nature of that would have been a little bit like cramming for an exam, sir.

Mr. Shays. In what sense?

Mr. Strauss. In that we had to give him a high volume of information in a relatively short period of time, and he, without any experience or knowledge about what we were telling him, had to absorb those facts and be able to regurgitate them if questioned.

Mr. Shays. The bottom line as far as I'm concerned is that not only consultant fees had to have been paid to certain individuals to bring access—I watched your reaction. We were describing another program, I think New Jersey, which was funded, where the Congressman came down and people from the community came down.

Mr. Strauss. That is one of our projects, yes.

Mr. Shays. And you didn't have to pay any consulting fee. That is really the way the system is supposed to work, isn't it? In other words, the community is supposed to want it. They are supposed to present their case.

Let me back off and say that is not necessarily the way it is supposed to work, because there still has to be a competitive process.

Mr. Strauss. Right. But that is the system I would like to compete in against anyone in the country, sir.

Mr. Shays. I want you to take me through the process. I need to limit your time on this, because you could spend hours. Let me just tell you what I want to understand. I have a pretty good idea, but I want you to take me through the process of finding a site, of the application process, of the syndication and the development. I would like to have you just give me a very brief sketch of what the process is, the funding, the application, the syndication, the development.

Are you clear on what my question is?

Mr. Strauss. I think so. I am just trying to think about how to put it in a manner that won't take all the time.