AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

AFFORDABLE HOUSING PRESERVATION: LESSONS FROM STARRETT CITY

FIELD HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND COMMUNITY OPPORTUNITY

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

JULY 10, 2007

Printed for the use of the Committee on Financial Services

Serial No. 110–47

U.S. GOVERNMENT PRINTING OFFICE

38–387 PDF WASHINGTON : 2007

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

HOUSE COMMITTEE ON FINANCIAL SERVICES

BARNEY FRANK, Massachusetts, *Chairman*

PAUL E. KANJORSKI, Pennsylvania
MAXINE WATERS, California
CAROLYN B. MALONEY, New York
LUIS V. GUTIERREZ, Illinois
NYDIA M. VELÁZQUEZ, New York
MELVIN L. WATT, North Carolina
GARY L. ACKERMAN, New York
JULIA CARSON, Indiana
BRAD SHERMAN, California
GREGORY W. MEEKS, New York
DENNIS MOORE, Kansas
MICHAEL E. CAPUANO, Massachusetts
RUBÉN HINOJOSA, Texas
WM. LACY CLAY, Missouri
CAROLYN McCARTHY, New York
JOE BACA, California
STEPHEN F. LYNCH, Massachusetts
BRAD MILLER, North Carolina
DAVID SCOTT, Georgia
AL GREEN, Texas
EMANUEL CLEAVER, Missouri
MELISSA L. BEAN, Illinois
GWEN MOORE, Wisconsin,
LINCOLN DAVIS, Tennessee
ALBIO SIRES, New Jersey
PAUL W. HODES, New Hampshire
KEITH ELLISON, Minnesota
RON KLEIN, Florida
TIM MAHONEY, Florida
CHARLES A. WILSON, Ohio
ED PERLMUTTER, Colorado
CHRISTOPHER S. MURPHY, Connecticut
JOE DONNELLY, Indiana
ROBERT WEXLER, Florida
JIM MARSHALL, Georgia
DAN BOREN, Oklahoma

SPENCER BACHUS, Alabama
RICHARD H. BAKER, Louisiana
DEBORAH PRYCE, Ohio
MICHAEL N. CASTLE, Delaware
PETER T. KING, New York
EDWARD R. ROYCE, California
FRANK D. LUCAS, Oklahoma
RON PAUL, Texas
PAUL E. GILLMOR, Ohio
STEVEN C. LaTOURETTE, Ohio
DONALD A. MANZULLO, Illinois
WALTER B. JONES, Jr., North Carolina
JUDY BIGGERT, Illinois
CHRISTOPHER SHAYS, Connecticut
GARY G. MILLER, California
SHELLEY MOORE CAPITO, West Virginia
TOM FEENEY, Florida
JEB HENSARLING, Texas
SCOTT GARRETT, New Jersey
GINNY BROWN-WAITE, Florida
J. GRESHAM BARRETT, South Carolina
JIM GERLACH, Pennsylvania
STEVAN PEARCE, New Mexico
RANDY NEUGEBAUER, Texas
TOM PRICE, Georgia
GEOFF DAVIS, Kentucky
PATRICK T. McHENRY, North Carolina
JOHN CAMPBELL, California
ADAM PUTNAM, Florida
MICHELE BACHMANN, Minnesota
PETER J. ROSKAM, Illinois
THADDEUS G. McCOTTER, Michigan

JEANNE M. ROSLANOWICK, *Staff Director and Chief Counsel*

SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

MAXINE WATERS, California, *Chairwoman*

NYDIA M. VELÁZQUEZ, New York
JULIA CARSON, Indiana
STEPHEN F. LYNCH, Massachusetts
EMANUEL CLEAVER, Missouri
AL GREEN, Texas
WM. LACY CLAY, Missouri
CAROLYN B. MALONEY, New York
GWEN MOORE, Wisconsin,
ALBIO SIRES, New Jersey
KEITH ELLISON, Minnesota
CHARLES A. WILSON, Ohio
CHRISTOPHER S. MURPHY, Connecticut
JOE DONNELLY, Indiana
BARNEY FRANK, Massachusetts

JUDY BIGGERT, Illinois
STEVAN PEARCE, New Mexico
PETER T. KING, New York
PAUL E. GILLMOR, Ohio
CHRISTOPHER SHAYS, Connecticut
GARY G. MILLER, California
SHELLEY MOORE CAPITO, West Virginia
SCOTT GARRETT, New Jersey
RANDY NEUGEBAUER, Texas
GEOFF DAVIS, Kentucky
JOHN CAMPBELL, California
THADDEUS G. McCOTTER, Michigan

CONTENTS

	Page
Hearing held on:	
July 10, 2007	1
Appendix:	
July 10, 2007	43

WITNESSES

TUESDAY, JULY 10, 2007

Arriaga, Frederick C., Counsel, Borough of Brooklyn	24
Cestero, Rafael, Senior Vice President, Enterprise Community Partners, Inc.	30
Donovan, Shaun, Commissioner, New York City Department of Housing Preservation and Development	21
Montgomery, Hon. Brian D., Assistant Secretary for Housing-Federal Housing Commissioner, U.S. Department of Housing and Urban Development	8
Pazant, Shirley, ACORN member	32
Perine, Jerilyn, Executive Director, Citizens Housing and Planning Council	28
Purnell, Marie, President, Starrett City Tenants Association	26
VanAmerongen, Deborah, Commissioner, New York State Division of Housing and Community Renewal	18

APPENDIX

Prepared statements:	
Velazquez, Hon. Nydia M.	44
Arriaga, Frederick C.	49
Cestero, Rafael	54
Donovan, Shaun	60
Montgomery, Hon. Brian D.	67
Pazant, Shirley	71
Perine, Jerilyn	75
VanAmerongen, Deborah	78

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Waters, Hon. Maxine:	
Statement of David Bistricer	85
Statement of Disque D. Deane	91

AFFORDABLE HOUSING PRESERVATION: LESSONS FROM STARRETT CITY

Tuesday, July 10, 2007

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND
COMMUNITY OPPORTUNITY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., at the Brooklyn Sports Club, 1540 Van Siclen Avenue, Brooklyn, New York, Hon. Maxine Waters [chairwoman of the subcommittee] presiding.

Members present: Representatives Waters, Velazquez, Ellison, and Shays.

Also present: Representatives Towns and Clarke.

Chairwoman WATERS. Good morning. First, I would like to thank you for your patience. We are getting started a little late; however, we are excited about being here, and we thank you for waiting past the 10:00 to get started. I think we are going to have some good news for you today.

This hearing of the Subcommittee on Housing and Community Opportunity will come to order.

Ladies and gentlemen, I would like to thank first Mr. Edolphus Towns for requesting this hearing on the preservation of Starrett City out of his concern about the loss of this development as affordable housing.

Let me just share with you that when I first learned about this, I was in California—I think we may have been on break—and I got an urgent call from Mr. Towns, and I have talked with him every day since that call, assuring him that we would be here today and we would have this subcommittee hearing.

So, I know that you just gave him a round of applause. We are going to break all the rules. Give him another round of applause.

I would also like to thank Congressman Christopher Shays, who went to a great deal of trouble to be here today. He did not get in until after 1:30 this morning, but he wanted very much to be here because he sees this as an opportunity for us to learn about what we can do, not only here at Starrett, but with other, similar developments across the country.

Another New Yorker who has been very concerned about this project, and despite the fact that she probably should be at the doctor right now, she said that she had to spend the time here, because this is so important not only for Brooklyn and this area, but for all of New York, Congresswoman Velazquez.

And, we will probably be joined a little bit later by another member of the committee—all right. We are going to talk a little bit louder, with the microphone a little bit closer.

I want to make sure that you understand that Mr. Shays and Ms. Velazquez are members of the Subcommittee on Housing and Community Opportunity, and we will probably be joined by one other member, Mr. Keith Ellison, and another New Yorker, Ms. Yvette Clarke. They will perhaps be joining us this morning.

I would like to start by noting—and I have to do this for the record—that without objection, Mr. Towns and Ms. Clarke, who are not members of the committee, will be considered members of the subcommittee for the duration of this hearing. Also, without objection, all members opening statements will be made a part of the record.

Ladies and gentlemen, we are here today at Starrett City, the largest federally subsidized, affordable housing development in the United States, in order to discuss preserving its affordability for current and future tenants.

In February, Starrett City Associates sold this development to Clipper Equity for $1.3 billion. However, the Department of Housing and Urban Development and the New York State Division of Housing and Urban Renewal rejected that sale due to a lack of a clear plan as to how the development would be kept affordable.

In March, Clipper Equity submitted a second plan to HUD. This plan relies heavily on enhanced vouchers which protect most tenants from rent increases, but does not make the development affordable after tenants move out. Perhaps more troubling is the fact that not all tenants will receive enhanced vouchers, and some of those who receive them will still see their rents increased. There are also unsubsidized tenants at Starrett who will see their rents increase under Clipper Equity's plan.

Although Clipper Equity says it will phase this increase in over 3 years, the rise in rent could cause a hardship for these working families. However, there have been concerns raised also about the financial feasibility of this plan, and I certainly shared those concerns once I reviewed the plan.

However, I am pleased to announce that the Department—that is, HUD—has rejected the plan a second time. I was informed of the Department's decision yesterday, and I would like to take this moment to commend the Secretary of HUD, Secretary Jackson, for recognizing the infeasibility of Clipper Equity's plan.

In a letter dated July 9th, Secretary Jackson stated that Clipper Equity has failed to demonstrate that it has the organization or financial capacity to follow through with its plan. In addition, Secretary Jackson notes that Clipper Equity has not provided a full management plan to preserve long-term affordability of Starrett City. The message from HUD is very clear: This plan simply is not financially feasible.

And this rejection signals that the sale of affordable housing resources like Starrett City is to be held to the highest scrutiny.

I share Secretary Jackson's concerns about the financial infeasibility of the plan submitted by Clipper Equity. In addition, I am very concerned about the suitability of David Bistricer as a manager of affordable housing, given the numerous housing code viola-

tions at Flatbush Gardens and his department by the State of New York from converting rental housing into condominiums or cooperatives.

The New York State Division of Housing and Community Renewal has also rejected Clipper Equity's plan for a second time. Yesterday, DHCR announced that they, too, were rejecting the plan for affordability submitted by Clipper Equity.

So, right now, this is a victory for the tenants.

We have worked to keep Starrett affordable, and Mr. Towns' role in requesting this hearing, which has clearly prompted these decisions from HUD and DHCR, should not be forgotten.

We are very pleased with this announcement that Starrett City will remain affordable. In his written testimony to this subcommittee, Disque Deane states that it is time for his patient and long-term investors to move on from Starrett City, and that the application of housing subsidies does not transform his privately owned asset into a public work.

To that, I say to Mr. Deane, your first obligation is not to your investors or to your stakeholders, but to the families and communities who make Starrett City so valuable. All of these families are worth more than $1.3 billion, and Mr. Deane, I believe, should recognize that. Any plans for the sale of this development must be undertaken in a clear and transparent manner, with input from residents and government officials, and must, absolutely must take pains to keep this development affordable.

I am disappointed that Mr. Bistricer and Mr. Deane have chosen not to testify at these proceedings, or to make a representative available to testify on their behalf. However, Mr. Bistricer and Mr. Deane have submitted written testimony to this subcommittee, and it will be entered into the record, without objection.

Affordable housing preservation is a national issue. From 1995 to 2003, this country has lost 300,000 federally assisted affordable housing units. This loss in affordable housing comes at a time when more and more families are struggling to pay the rent; 17 million of the Nation's renters have housing cost burdens, paying over 30 percent of their income in rent. Of this number, 8 million have severe housing cost burdens, paying over 50 percent of their income in rent. Low-income families with severe housing cost burdens often spend substantially less on food, clothing, and health care. It is hard for these families to make ends meet, because their incomes have stagnated while rents have risen.

This means that rental housing is increasingly out of reach for America's working families. When renters only earn an average of $13 an hour, but really need to earn at least $16.31 an hour to pay the rent on a two-bedroom apartment, the need for affordable housing preservation is very clear.

But, it simply isn't enough to retain each unit of affordable housing. We must also create new units. For every two units of affordable housing lost, only one affordable unit is built. It is clear that we need to do more to increase the supply of the Nation's affordable housing.

This is why I am honored to be an original cosponsor of H.R. 2895, the National Affordable Housing Trust Fund Act of 2007. The goal of the Trust Fund is to preserve, rehabilitate, and produce 1.5

million more units of affordable housing over the next 10 years, without increasing government spending or adding to the Federal deficit.

The sale of affordable housing resources like Starrett City is about more than bricks and mortar. It is about lives and communities, and anybody should clearly demonstrate to the government how it will protect those lives and communities.

I believe that the witnesses gathered here can help this subcommittee understand the importance of the continued affordability of Starrett City.

I would now like to recognize Congressman Shays for his opening statement. Thank you very much.

Mr. SHAYS. Madam Chairwoman, thank you for holding this hearing. I am here because Chairwoman Waters and Representative Towns said, "Be here." We could not have a more caring chairwoman than Chairwoman Waters or a more caring and effective Representative than Ed Towns.

I appreciate the interest all the stakeholders have taken in this issue—HUD, the Governor, the Mayor, the borough president's office, the property owners, and, most importantly, the tenants who live here, all of you.

For better or worse, the Federal Government has removed itself from owning and managing affordable and public housing. Because of this evolution, the Government is captive to the costs of renting housing from private owners.

Today, we will examine how we can best preserve our affordable housing stock nationwide, and what some of the challenges are as the value of affordable units becomes so attractive in the private real estate market.

While today's hearing will focus on preserving access to affordable housing in Starrett City, we know the outcome of the proposed sale would have a profound impact on the marketplace nationwide. In coming years, as more owners of affordable housing communities consider the desirability of maintaining their investment, a sale to private developers is more and more likely.

Although it is not the situation in Starrett City, in some cases, the need for capital improvements to the property is so great that the owner has no choice but to sell all or part of the property. The greatest risk when interested parties improperly intervene in the sale or transfer of a property is that the owner loses all interest in the future of the property and simply sells to the highest bidder, losing the affordable units altogether.

We know that as Starrett City goes, so will go many future developments in the affordable housing marketplace. Owners, prospective buyers, State and local governments, tenants, and advocates are all watching closely. And we need to be concerned that a negative outcome will stifle future investment, and interest in affordable housing will continue in the private marketplace.

We need to find a resolution that, first and foremost, protects the families who live here, and also takes into account the needs of the owners to maintain this very successful private and public partnership.

I am grateful that HUD has examined this issue so closely. It did not hesitate to rule that the initial proposal threatened the preser-

vation of affordable housing for those who need it most, the families of Starrett City, and how it has done the same again.

Under the leadership of Secretary Jackson, HUD's commitment to preserving the affordability of these units is real, and it is appreciated by all of us.

Madam Chairwoman, thank you again for your leadership on this issue. I look forward to the testimony.

I also want to convey my appreciation for the friendliness of this place; I had bumped into Ms. King in Apartment 3–B, and she invited me up to her unit.

Chairwoman WATERS. Thank you very much.

I would now like to recognize Congresswoman Velazquez.

Ms. VELAZQUEZ. Good morning, everyone. Thank you, Chairwoman Waters, and Mr. Shays, for convening this important hearing and leading this discussion on the dire need for affordable housing in our City and across the United States.

I also want to thank the City administration, particularly HPD, and the State government and HUD, for coming together in addressing such an important issue. Whatever happens at this development will be a defining point for the rest of the country. And what it shows is how we can bring positive results when different levels of government come together. Despite the fact that we have a Republican Administration, on this issue, I have to say that you have been responsible in making sure that working families who are working two and three jobs have a roof over their heads.

And I say thank you to Mr. Shays for your sensitivity, to Mr. Towns for your commitment to preserve affordable housing, but most importantly, to the tenants of Starrett City for your activism, and your commitment and your drive to preserve affordable housing.

So, in light of the issue at hand and in light of the heat, I will ask unanimous consent that my entire statement is admitted into the record.

Chairwoman WATERS. Without objection.

Ms. VELAZQUEZ. And, with that, I just am eager to hear the good news from the Honorable Brian Montgomery. Thank you.

Chairwoman WATERS. Thank you very much.

And now I will call on the gentleman who has talked to me every day until we got here, Congressman Edolphus Towns.

Mr. TOWNS. Thank you. Thank you very much.

Let me begin by thanking the chairwoman, Congresswoman Maxine Waters, who came 3,000 miles to be with us this morning. Let's give her a big round of applause. We thank her for her commitment and her dedication. And, of course, we welcome her to Brooklyn.

I would also like to thank the Secretary of HUD, who made two visits to Starrett City—not one, but two. And then, of course, after making his visit, he then ruled, which means that he understands Starrett City. He had an opportunity to talk to the residents of Starrett City before he made his decision. So I want to thank Secretary Jackson for his commitment and his dedication.

I want to thank HPD, and I also want to thank State Housing for all of their visits to Starrett City. Let me tell you that anybody,

anywhere that I have met, I told them about what was happening at Starrett City, and they needed to assist us in doing a good job.

I am delighted to be joined by my colleague, Nydia Velazquez, who has worked with me on this issue. And, of course, I have gotten everybody involved. Yvette Clarke, who is my next-door neighbor, we have her here. We want her to hear what is going on.

And, of course, this is the largest subsidized housing in the country, and we should not forget that. And, of course, the way Starrett City goes is the way the Nation is going to go, so we want to make certain that we learn as much as we can from you, as to what we might be able to do from this day on.

A few years ago, the American Heart Association ran a successful series of public service announcements to raise awareness of the perils of high blood pressure. The spots labeled the disease the silent killer. Today, the Nation faces a public policy challenge that reminds me of how blood pressure, acute, growing, and deadly, yet for most Americans, unknown, the issue is affordable housing. The escalating rents and deplorable housing conditions for tens of thousands of Brooklyn residents are familiar to us all.

You know, they talk about enhanced vouchers. Well, enhanced vouchers really are not a solution to our problem, you see, because the voucher is tied to the individual, and not to the apartment. So, if the person moves out, then they just can raise the rent in the apartment, because that enhanced voucher is gone.

So we need to make certain that we don't listen to the tricks. We have to learn today to make certain that we ask the right questions. Because in order to get the right answer, you must phrase the question properly.

We don't want to be like the old man who was sitting on a bench, and not too far from him was a dog. Two young fellows were playing around, and they asked the old man, "Will your dog bite?" And the old man said, "No, my dog will not bite." The young fellow went over to pet the dog, and the dog took a hunk of meat out of his hand. He said, "I thought you said your dog wouldn't bite." And the old man said, "That is not my dog."

So we need to make certain that we phrase the question properly, so that we will be able to get the right answers. And that is the reason why I am so happy that we have the chairwoman of the committee here, and all the others here today, to try to see if we can't phrase the right question to be able to get the right answers.

You can be assured that Ed Towns is not going to go away. Now, I understand that somebody has tried to run, and the purchaser said, "Well, we wish Ed Towns would go away." Well, I want to let you know that I am not going away. As long as the people in this development are affected by what they decide to do, I will not go away.

A lot of us have heard the record from hundreds of residents who believe this transfer in ownership will result in significantly higher rents, a reduction of services, and undue pressure for tenants to relocate. This deal has already been rejected twice. How many times do they have to reject it before they get the message that this pig will not fly?

While housing policy is often complicated, housing itself is very simple. Everyone needs a decent place to live and the ability to pay

for it. This is the social minimum. It is a goal we can achieve, and a goal we must set if we expect families to succeed and our neighborhoods to flourish.

So I thank the committee for coming to Brooklyn to hear firsthand what the residents of Starrett City and Spring Creek and Brooklyn have to say about the issue of affordable housing. Let me assure the residents of Starrett City that you are not alone in this fight. Ed Towns will say it, as long as my tongue clings to the roof of my mouth, affordable housing must be kept.

Thank you so much.

Chairwoman WATERS. Thank you very much.

Ladies and gentlemen, we have been joined by another New Yorker, Congresswoman Yvette Clarke.

Ms. CLARKE. Let me just start by thanking the distinguished chairwoman from California, young Maxine Waters, for coming across the country to be here in Brooklyn, New York, where the Nation really, truly is.

Let me just say that I have found, in my short tenure in the U.S. House of Representatives, that all that we have heard and all that we have read about Maxine Waters remains true, remains vibrant, and ever vigilant on behalf of the people of the Nation. And so we owe her a debt of gratitude, and it is certainly my honor and my privilege to serve with her.

To my colleague, Congressman Ed Towns, my partner who I—we have adjoining districts. When I hear about a struggle happening in the 12th Congressional—and to my colleague, Nydia Velazquez, who sits on the other side of my district, and I hear about a struggle happening in her district, the 10th Congressional, it has a profound impact on the people of the 11th Congressional District. And so I am moved to be where these Members are, to stand up for each and every one of you who make our civil society just that, a civil society.

Affordable housing is instrumental to so many New Yorkers and working families in our community, and when we turn our backs at this juncture in our history, we are saying that we do not embrace the value of this Nation. It has been families like yours and like mine who have made America what it is today.

We have an obligation not only to wage this battle and win, but we have an obligation to leave a legacy for those who are coming behind us. If we lose this battle of affordability, of our humanity, and just being humane around how we will support housing for our people, then we are saying that we give up on the future of this Nation. When we win here in Brooklyn, New York, they will win in New Orleans, Louisiana.

I am committed, as are my colleagues, to diligently pushing for a better agenda that will protect our diminishing supply of affordable housing and push forward forcefully for increased affordable housing in this Nation, in this City, and in this State. If not, we know what the consequences are; we will continue to see a separation between the haves and the have-nots. The have-nots will continue to labor in vain, and their American dream will not be attained. I cannot stand by for that.

Let me just close by saying that I want to thank the Honorable Brian Montgomery for taking the time to be here with us. It is a

lovely facility here in Starrett, and we want to make sure that the residents who have been the stewards of this place continue to receive the respect and the dignity that they deserve.

Today, we send a signal to all working people throughout this City, and throughout this borough, that we stand together in unity, understanding that a roof over one's head is an indication of growth, of development, and that when we fail to make sure that our people are housed, we have failed in our civil society.

Let me thank HPD—I see so many of my friends here; You know, I was a Council member just 6 months ago—and I thank DHCR for their vigilance in this matter. I look forward to partnering with my colleagues, and with each and every one of you, as we are victorious in making sure that affordable housing is truly affordable, and that it remains a fact of the foundation of our community.

Mr. TOWNS. As I pass the microphone back to the chairwoman of the committee, let me just ask that all the able-bodied stand and give seats to our seniors. We have some seniors who are standing. And, of course, we hope that you would do that. I mean—so think about it, and see if you can't help me out. Thank you so much.

Chairwoman WATERS. Thank you very much.

I would now like to introduce our first panel, which consists of the Assistant Secretary for Housing for the United States Department of Housing and Urban Development, Mr. Brian Montgomery. Assistant Secretary Montgomery, thank you for appearing before the subcommittee today. And, without objection, your written statement will be made a part of the record.

You will now be recognized for a 5-minute summary of your testimony.

STATEMENT OF THE HONORABLE BRIAN D. MONTGOMERY, ASSISTANT SECRETARY FOR HOUSING-FEDERAL HOUSING COMMISSIONER, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. MONTGOMERY. Good morning. Thank you very much, Chairwoman Waters, Chairman Towns, and distinguished members of the Subcommittee on Housing and Community Opportunity. On behalf of HUD Secretary Alphonso Jackson, thank you for inviting me and the Department to testify here today. We appreciate the opportunity to provide the committee with our position on Starrett City, as well as our commitment to the preservation of affordable housing across the Nation.

Starrett City has been a model housing effort. The development has allowed low-income families to find affordable housing in the City, to remain part of the City, to feel a sense of community and to grow within the community. It is for these and other reasons our Administration and HUD remain committed to preserving this affordable housing.

With more than 16,000 residents, Starrett City is the largest federally subsidized development in the country and is an essential affordable housing resource for the entire area. We believe the proposed transaction threatens New York City's affordable housing market and those most in need of the housing. At HUD, we recognize that this sale is expensive to the developer and that rents will have to be increased to cover the debt service. As a result, the sale

could quickly displace most, if not all of the residents, who will have few housing options left in this tight market.

As you are aware, the Department rejected the initial request from Clipper Equity due to the lack of information needed to make an informed decision as to their capacity and their experience to operate a development of this size. And the Department has recently reviewed a revised proposal and yesterday, yes, HUD Secretary Alphonso Jackson rejected this proposal, as well.

We at HUD continue to have serious concerns regarding Clipper Equity's organizational and financial capacity, as well as their ability to sustain the development as affordable housing for the long term.

As you know, the Secretary also met with more than 100 residents of Starrett City in Washington a few months ago. He wanted to listen, and he heard the concerns. And from day one, the Secretary has made it clear that HUD's number one priority is preserving Starrett City as affordable housing. This remains our goal, and we will not waiver from it.

The need for preservation of our existing affordable housing stock cannot be overstated. In addition to the aging of the physical structures, preservation is challenged by a number of things, including escalating market rents in some areas, including up here, rapid increases in operating expenses, and regional demographic shifts that include our aging populations and persons with disabilities.

To date, HUD has preserved the affordability of more than 250,000 units nationwide. But to assist us in doing more, our industry partners and elected officials from around the country have put forth legislation to address affordable housing preservation.

One proposed legislation is H.R. 647, introduced by Chairwoman Waters and Deborah Pryce, and S. 131, introduced by Senators Allard and Reed of Rhode Island. These will further HUD's opportunities to strengthen and advance our preservation efforts. This legislation reauthorizes the Mark-to-Market program that has preserved more than 125,000 units to date. If reauthorized for another 5 years, we can expect to preserve approximately 50,000 additional units.

In May of this year, we also sponsored a national affordable rental housing symposium, Preservation: Now and in the Future. We covered many topics and had a very productive dialogue with preservation experts and housing advocates, with more than 250 in attendance. Some key issues discussed were the section 202 refinancing rules and the need for clarification to have it be a more effective tool. We also discussed the one-for-one unit replacement policy and when it should be required, as well as the need for resources—private, local, State, and Federal—to work together to preserve projects and mortgages that are maturing with no long-term affordability or tenant protections.

We are also pleased to report that a revised section 202 refinancing notice is in its final stage of completion. We are also working on policy regarding the conversion of units from efficiencies to one-bedrooms, and how to use the one-for-one replacement when redeveloping and preserving a project. Both of these notices, I am pleased to report, should be published within 90 days.

It was also collectively concluded that we need to establish more incentives for owners to maintain the housing as affordable for the long term. This will be after mortgages mature or rental assistance contracts expire.

Lastly, the Department is also committed to increasing the supply of affordable housing in this country. The majority of affordable housing projects built today are financed through the Low-Income Housing Tax Credit. We have begun an initiative to identify and address ways in which HUD's financing programs—FHA, and section 202, and section 811—can work more effectively and more efficiently with the Low-Income Housing Tax Credit program. We are streamlining our subsidy layering procedures and processing procedures in order to improve the timing of HUD approvals to meet the tax credit program deadlines.

But we are committed also to working with the Department of the Treasury to achieve better coordination between the two agencies in administering these very successful affordable housing programs.

In closing, I would like to reiterate the Administration and HUD's commitment to the development and preservation of affordable housing, including, of course, Starrett City. I enjoy visiting such vibrant communities as I found here in Starrett City, and preserving these kinds of communities is our top priority at HUD.

Thank you, again, Madam Chairwoman. This concludes my testimony. I would be happy to respond to any questions you may have at this time. I would also like to thank the residents here for hosting this day, as well. Thank you.

[The prepared statement of Assistant Secretary Montgomery can be found on page 67 of the appendix.]

Chairwoman WATERS. Thank you. Thank you for your testimony, Assistant Secretary Montgomery.

I would like to begin the question period with a few questions you raised in my mind.

I have been told that Mr. Bistricer will not go away, that he is going to come back with another proposal. I have been told that the seller is interested in selling, and if not to Mr. Bistricer, perhaps someone else will come with a proposal.

I heard your commitment for reviewing any proposal in the way that you have reviewed this one, to make sure that it is financially sound and that the management capability is well documented. So are you telling the residents here that should there ever be a sale, it would essentially be seamless, that there should not be a lot of waivers and other kinds of subsidized support from the Federal Government, or anything that would increase the rents, and displace people?

Would you please just talk to us a little bit more about what happens if there is a continued attempt to purchase.

Mr. MONTGOMERY. I will give you a short answer.

Chairwoman WATERS. Say it loud.

Mr. MONTGOMERY. Unless a proposal keeps this facility affordable—

Chairwoman WATERS. I am sorry. They can't hear you in the back.

Mr. MONTGOMERY. Unless a proposal keeps this facility—a Starrett City proposal keeps this an affordable property, we are not interested in such a proposal.

Chairwoman WATERS. Thank you.

And secondly, Mr. Secretary, I would like to ask you, have we learned very much, looking at this proposal, that will help us as we view attempts to purchase these kinds of developments all over the country? Have we learned some lessons here?

Mr. MONTGOMERY. Absolutely. And I want to paraphrase something that Chairman Towns said. It is fortunate—

Mr. TOWNS. They can't hear you in the back.

Mr. MONTGOMERY. I am paraphrasing what Chairman Towns said. It is fortunate in this case that the tenants here, that the residents here, led by Ms. Marie Purnell and others, asked the right questions. They united as a voice. The two parties—in reference to bipartisanship in this, we worked together. I want to say that we knew the principles and we did the right thing.

So the lessons learned: Obviously, we need to define exactly what is in the proposal—I am just reiterating what I said earlier. We are not interested in entertaining other proposals that remove the affordability from this property.

Chairwoman WATERS. Thank you very much.

So, in essence, what you just said was the activism, the concerns of the residents here, organizing, asking the right questions, making sure that everybody understood what their concerns were certainly did help you in reviewing this project and understanding what had to be done.

Is that what you are telling us?

Mr. MONTGOMERY. Absolutely. Having a clear and united voice, hearing your concerns. In speaking for the Secretary, he made two visits up here. He personally heard many of those concerns firsthand. And I can't say enough how much that played in making his decision.

Chairwoman WATERS. All right. The power of the people. Okay. Thank you.

Next, I will call on my colleague from Connecticut, Mr. Shays, for his questions.

Mr. SHAYS. Madam Chairwoman, with your permission, I will yield my time to Congressman Ed Towns with regard to this.

Chairwoman WATERS. Oh, thank you very much.

Mr. Towns?

Mr. TOWNS. Let me thank my colleague, Congressman Shays, for yielding to me. And of course, I am delighted that he is here in Brooklyn; he is our next-door neighbor, as you know, from Connecticut.

Let me just begin by asking a question in terms of the word "incentive" that has been used. What kind of incentives do you think might be used to keep Starrett City affordable?

Mr. MONTGOMERY. Well, I will give you an answer not just for Starrett City, but as to all these properties, the thousands of them across the country that have mortgages on them. And part of those mortgages—

Mr. TOWNS. I am sorry. They can't hear you in the back.

Mr. MONTGOMERY. Here we go.

Mr. TOWNS. Okay.

Mr. MONTGOMERY. A lot of properties across the country, including Starrett City, have mortgages, and these mortgages will eventually mature in time. It is critical that before mortgages mature, we offer incentives, whether we restructure a financial transaction, whether we provide more rental assistance, that we give the right incentive to the property owner to keep it affordable.

And so as the population is growing and the demographics are changing, we have to be very aware in following those changing demographics, to make sure that we have more affordable housing.

We can speak a lot for the production of new affordable housing, but I promise you that we are going to be doing everything we can to hold on to what we have.

Mr. TOWNS. Yes, let me be—enhanced vouchers have been used in terms of ways and methods so that it will stay affordable. But my understanding of enhanced vouchers is that it is tied to the tenant, and that if the tenant moves—and I am not sure exactly the number of people who move out of Starrett per year, but what happens if the person who moves has an enhanced voucher? Does that voucher stay with the apartment, or does it go with the person?

Mr. MONTGOMERY. Yes and no. It depends on whether it is a project-based property or a tenant-based property.

But let me add one thing to your point, if I could, Mr. Chairman, and that is, many times the families will take a voucher because someone says, "Well, here, take a voucher. You can choose the apartment you need." In the same way, maybe they are working and living downtown, and maybe they work in a hospital, or maybe they are a school teacher, and the housing market is so dense and tight in the downtown area that the only option that they have now is to move way out into the suburbs. And they may not want that. So now they are spending more time and more money in commuting.

And my personal opinion is, there is a good place for vouchers, enhanced or not, but it is not a cure-all, in many cases, for particular family situations, especially when they have to move way out of the city's central area.

Mr. TOWNS. Let me make sure that I phrase this properly, that—you know, sometimes we have owners who will give poor service to try and force tenants out. And once they force them out, then they can increase the rent for that apartment.

So they are saying, if I don't give them services, and I don't give them heat, then they will move, and when they move, then I can get more money for the apartment.

What do you have to guard against that kind of activity? Because we know of things like that here in the Borough of Brooklyn.

Mr. MONTGOMERY. Well, I have to say that we have a very good staff at HUD who look out for that sort of activity. We do not allow that. And there have been cases where that has happened, where property owners purposely let projects run down, and then they say, look how bad the property is here. I need more money to rehab, or whatever, and then they are trying to raise the rent on folks. That just doesn't make sense to us.

So working with our fair housing staff, working with our field office staff, we try to enforce those rules, to make sure that doesn't happen. But of course, you are right; it does happen.

Mr. TOWNS. Let me—and you might not be able to answer this on the spot, but I would like to have it answered at some point.

How much would it cost the government to replace the current subsidies with enhanced vouchers here at Starrett City? How much would that cost? Do you have any idea?

Mr. MONTGOMERY. Mr. Chairman, I do not have that off the top of my head, but I can get that for you.

Mr. TOWNS. We would like to know that.

So, Madam Chairwoman, on that note, I will yield back. And I would like to thank the gentleman from Connecticut for allowing me to go first, not being a member of the subcommittee. Thank you for your courtesy that you have extended to me.

Mr. SHAYS. Thank you.

Chairwoman WATERS. Next, I will call on Congresswoman Velazquez for questions.

Ms. VELAZQUEZ. Thank you, Madam Chairwoman.

Mr. Montgomery, I want to ask you the right question. And that is, yes, you are saying that, for a second time, this sale has been rejected by HUD. But yet the New York Times, in an article that appeared today, said that the owners of Starrett City have announced that they will pay the mortgage to withdraw from the Mitchell-Lama program.

If that happens, then what? Where do we go?

Mr. MONTGOMERY. I just want to reiterate my previous warning: People can talk all they want. They can say all they want, the New York Times and others. Unless, whether it is the current Clipper Equity, or someone in the future, unless they bring a proposal to us that keeps this property affordable, we are not going to entertain that proposal.

Ms. VELAZQUEZ. How could you prevent them from paying or withdrawing from their mortgage?

Mr. MONTGOMERY. Well, at some point, there will be, certainly, a mortgage on the property. At some point, it will mature. And let me say that this is happening to properties all over the country, but more than 90 percent of owners elect to stay in the program. We are embarking on a way to provide those tools to keep the property affordable, to keep the rents affordable.

If and when that ever happens here—it could be 10 years, 50 years, or whatever—I can't speak for who may be in HUD, but it will be our goal to keep this affordable for the long term.

Ms. VELAZQUEZ. Assistant Secretary Montgomery, HUD has not issued clarified regulations on the administration of enhanced vouchers, especially in terms of the owners' obligation to accept the voucher, and family unit size mismatches.

When is HUD planning to announce a clarification to the regulation, especially since the owner of Starrett City relied heavily on enhanced vouchers? And if there is a third proposal, will it rely again on enhanced vouchers?

Mr. MONTGOMERY. Congresswoman, that program is administered through another office and not through mine. But I can certainly get the answer to that question.

Ms. VELAZQUEZ. Well, I don't want an answer, Mr. Montgomery. I want HUD to understand that this is a very important issue, if we want to keep affordability.

Mr. MONTGOMERY. Yes, ma'am.

Ms. VELAZQUEZ. That is it for now. Thank you.

Chairwoman WATERS. Thank you very much. I would like to turn to Congresswoman Yvette Clarke for questions.

Ms. CLARKE. I would like to thank the gentleman from Connecticut for yielding his time to another nonmember of this committee, and to just ask a couple of questions of the Assistant Secretary.

Mr. Montgomery, you mentioned that in order to sort of prevent this type of occurrence around the Nation in urban areas, there is a way that we could monitor more centrally. I want to ask whether the establishment of that practice has been embedded at HUD yet.

And have you put a mechanism in place that would actually monitor maturing mortgages to expedite negotiation and intervention, so that we can mitigate any practices of predatory speculation?

You know, when I was on the New York City Council, we had the unfortunate incident of a huge sale of affordable housing, called Stuyvesant Town and Peter Cooper Village. That sent a chilling effect to working people in the City of New York. And then, on the heels of that, we have this struggle out here at Starrett City.

My concern is that the Agency itself recognize that we are in a totally new climate and that best practices are embedded in the agency itself, so that we don't come to the table like this 3 years from now or 5 years from now.

Would you speak to that, sir?

Mr. MONTGOMERY. Well, I am sure this won't surprise you, but we are not perfect at that by a long stretch. And referencing affordable housing proposals made over the last month, and obviously someone who attended that spoke to your staff, that this issue was front and center among three or four presentations that day.

Yes, we do a much better job monitoring those mortgages that are close to maturing, to make sure that we don't reach within the last 3 or the last 6 months. We have been working, I think, with a group representing the tenants, the folks in these apartments, to make sure that we can have a better early warning system to do everything we can—and it may be that the owner wants to get out after the mortgage matures—so that we could be doing a better job to make sure we get to the owners, so that we can keep them.

As I mentioned before, we have a pretty good success rate at keeping that property affordable.

Ms. VELAZQUEZ. Sir, are you saying that HUD is committed to establishing a unit within the bureaucracy that will be focused on this?

Mr. MONTGOMERY. Whether it is called a unit, or an office or staff, we are committed to doing a much better job of doing this. And as I said, we got an earful of all those various things, those subjects last month, so—

Ms. VELAZQUEZ. Yes. Will there be a point person that we can turn to, who would have their finger on the pulse of what is hap-

pening, not only in Brooklyn, but in Detroit, in Oakland, and in Minneapolis?

Mr. MONTGOMERY. Well, right now, we are able to do it, but not probably as well as you are envisioning. But we do commit to you that we will do a much better job of organizing that, in an effort within our multifamily office.

Ms. VELAZQUEZ. Thank you very much.

Madam Chairwoman, I would like to suggest that we sort of pursue this particular issue, and hold these folks accountable for not getting to the point where we want to go forward and not be ready.

So I want to thank you, once again, for having this hearing.

Chairwoman WATERS. Thank you.

Ladies and gentlemen, I mentioned that another member of the committee would be joining us. He has joined us. Please welcome for questions Mr. Keith Ellison from Minnesota, one of our newer members.

Mr. ELLISON. Thank you, Madam Chairwoman.

It is an honor and a pleasure to be here with you at this important subcommittee hearing. It is also wonderful to be in Brooklyn. I am honored to be on this panel with my colleagues, and very, very honored to be here with all of you.

No doubt about it, your excellent attention to affordable housing is going to radiate throughout the country. And no question about it, coming out, standing up, sticking close to the issue is going to send a signal throughout the entire country, and let everyone know, even as far as Minnesota, that Brooklyn is setting a good pace for affordable housing in the United States.

So, again, thank you all for your attention—everyone, one and all.

Mr. Montgomery, I would like to ask you just a few questions. Given that the attempted sale at the Starrett housing development, given that it is the largest housing development in the United States, how does the effort to maintain housing affordability here impact the rest of our country?

Mr. MONTGOMERY. I think that the key thing is in reference to what Congresswoman Clarke said, a better job on an early warning system. And we do know how many properties now are in our inventory. But the key thing is that we, as a Department, have triage efforts. Many of these properties do have mortgages that aren't maturing, so that we can get to the owner or owners who have fulfilled their obligation to the government, by the way. They have had these mortgages 20 or 30 or 40 years that they have been paying on, and many of these owners just want to get out of the business.

Preservation is one of our top priorities now. This is the Mark-to-Market program. This will be in connection with keeping these properties affordable, especially in high-cost markets like we have up here.

Mr. ELLISON. Can you talk about the importance of programs that have helped people stay in their homes, such as rent assistance programs, Section 8 programs, that have helped supplement people's incomes, so that they could stay in their homes?

And what do you believe is the future of these programs? What is HUD's commitment to maintaining the subsidy programs that help people maintain their status in their homes?

Mr. MONTGOMERY. There is a wonderful Federal program that we are all familiar with, called the Low-Income Housing Tax Credit. It has been around since 1986. A bipartisan group passed that legislation 21 years ago.

Now, while it is good at helping some families, some moderate and lower-income families, to have a roof over their heads, for those families with lower income—30 percent of median, 40 percent of median—it is not enough to have the subsidy to construct the property. We have to have the rental assistance. For many of the families, they have to have the rental assistance.

The same is true for our section 202 program for elderly housing, and our section 811 program for persons with disabilities. We have to have at least those two programs to continue. If the only program is the tax credit, and we are going to help extremely lower-income people, we have to have the rental assistance as well.

Mr. ELLISON. Can you talk a little bit about the importance of senior housing? How much of the housing in the Starrett project is senior housing, and what are you doing to help our seniors maintain themselves in their homes here?

Mr. MONTGOMERY. I am not aware of the exact number, but I know that it is in the hundreds, not the thousands, of seniors who live here. By the year 2030, it will 25 percent. Think about that; one out of four Americans will be over 65. And this is one issue I talk about a lot. John McCain talks about it, ultimately, so we can work to improve it.

And when you think about it, not every senior is wealthy. You know, we have a great program for seniors who may be house rich but cash poor, a reverse mortgage. But there are a lot of low-income seniors who rely on affordable rental housing.

The section 202 program, we think, will make a provision, so as to marry that better with the Low-Income Housing Tax Credit program. A lot of States have—not enough, but many States have figured out how to do this on their own.

We, as the Federal Government, are working—in fact, we have, as part of our retirement project, to marry those resources together so that HUD is not paying 100 percent of the cost of it. We may be paying 30 percent or 60 percent; the tax credits or States are making up the balance of it. And guess what happened? We were able to produce more housing. And that is something that we are working on very hard as part of our overall projects, the pilot program to do that for 202.

Mr. ELLISON. Madam Chairwoman, I just want to thank you again for holding this committee hearing. I am looking forward to more dialogue.

And I just want to congratulate the residents again for their active participation, because, when people get involved, that is when changes happen. When politicians feel the heat, they see the light, and I think that this kind of hearing does that very well.

Thank you.

Chairwoman WATERS. Thank you very much.

The Chair notes that some of us may have additional questions.

Yes. I am sorry. Mr. Shays.

Mr. SHAYS. Thank you. I do want to get to the next panel, but I wanted to ask you a few questions.

Starrett City worked because there was a mortgage paid, financed by the Federal Government; there were tax incentives, write-offs, and there was rental assistance. And it seems to me, what gives you the power to reject this agreement was, in part, that there are still obligations that the owner has under existing requirements.

That is not true in some instances, because in some cases, you may just have a mortgage. Or you may just have tax write-offs, or you may have rental assistance, but not all three.

Congresswoman Velazquez asked a question that I need you to get into a little more deeply. In this case, you have a number of years where you have some leverage over the owners. In some places, in Connecticut and elsewhere, you are losing all that leverage. Now, one of the ways you are trying to keep this in affordable housing is in Mark-to-Market; that is one of your programs.

But tell me, what tools do you need in order to be able to add other units still in affordable housing?

Mr. MONTGOMERY. I will give you another example. We may have another—again, it is there approximately for 30 years—to fulfill these obligations. They have a new owner identified. The property is 30 years old and needs some rehab, it needs some updating; it may not have dishwashers, or whatever.

The new owner comes in and has a very fair proposal. Also, he needs some equity, cash to help him with the rehab. He needs or she needs to raise those rents below—not a lot—to a level to offset the cost of that, but that has a cost to it. And it pains me when we have to turn down those sorts of budget-based rent increases because we can't even afford to cover a modest increase in the amount of rent.

Now, despite having said that, again a lot of owners are opting to stay in the program. But I believe, in my heart of hearts, you know, there has to be more for us, looking at the shift in demographics, the aging population. It has been a sort of a patchwork of programs now that has kept it together, but there is more that we have to be doing.

And that is just one example right now.

Mr. SHAYS. I want you to react to something I am going to say.

It seems to me that what we should be doing is actively going to all the owners, particularly those that still have 5, 10, or 15 years, and say, "We would like to renegotiate now. I will give you an opportunity to have a little better terms, put something in place, but have a guarantee that you will be in this market much, much longer."

Is that a part of the strategy of HUD, to go to these owners before we have lost all leverage with them?

Mr. MONTGOMERY. Absolutely. And in the case of the properties that offer fair market rent, in the Mark-to-Market program. On the other side of that coin, with the other market programs, we protected some 100,000 units of housing.

It worked well in that instance, but in the instance where you don't have those sorts of plans in place yet, we need to be doing,

as I referenced earlier, a better job of identifying those properties in the market 5 or 10 years down the road, so we can maintain those affordable units.

Mr. SHAYS. Thank you.

Let me just conclude by thanking you for being here, and thanking Secretary Jackson for listening first to the tenants, showing, as a Republican, it is very important to lead, to see an Administration that is responsive to this.

So I am particularly grateful to the Secretary and to you also for listening to our chairman and working so closely.

My understanding is that Ed Towns can be a pain, but I wouldn't describe our chairwoman that way. I understand that she has weekly visits with the Secretary. I have seen that occur.

Thank you very much.

Chairwoman WATERS. That is called "keeping it real."

The Chair notes that some members may have additional questions for this witness which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to this witness, and to place his responses in the record.

This panel—Mr. Montgomery, thank you so very much—is now dismissed. And I would like to welcome our second panel. Thank you very much. Thank you.

I am pleased to welcome our distinguished second panel. Our first witness will be Ms. Deborah VanAmerongen, commissioner, New York State Division of Housing and Community Renewal.

Our second witness will be Mr. Shaun Donovan, commissioner, New York City Department of Housing Preservation and Development.

Our third witness will be Mr. Frederick C. Arriaga, counsel, Borough of Brooklyn.

Our fourth witness will be Ms. Marie Purnell, president, Starrett City Tenants Association.

Our fifth witness will be Ms. Jerilyn Perine, executive director, Citizens Housing and Planning Council.

Our sixth witness will be Mr. Rafael Cestero, senior vice president, Enterprise Community Partners.

And our final witness will be Ms. Shirley Pazant, Starrett City resident and ACORN member.

Without objection, your written statements will be made part of the record.

I will now recognize each of you for a 5-minute summary of your testimony. And we are going to go back to Ms. VanAmerongen.

Tell me how to pronounce your name.

Ms. VANAMERONGEN. It is van-amer-on-gen.

Chairwoman WATERS. VanAmerongen. We will start with you. Thank you very much. You are recognized for a 5-minute summary.

STATEMENT OF DEBORAH VANAMERONGEN, COMMISSIONER, NEW YORK STATE DIVISION OF HOUSING AND COMMUNITY RENEWAL

Ms. VANAMERONGEN. Thank you, Madam Chairwoman, and distinguished members of the subcommittee, particularly our Representatives from here in New York State, Congresswoman Velaz-

quez, Congressman Towns, and Congresswoman Clarke. And I would like to thank you for your leadership on these issues in Washington.

It is a pleasure to provide testimony regarding Starrett City and New York State's efforts to preserve affordable housing opportunities for our citizens.

My name is Deborah VanAmerongen, and I am the commissioner of the New York State Division of Housing and Community Renewal. We are an agency that is dedicated to developing partnerships and supporting community efforts to provide equal access to safe, decent, and affordable housing.

The State Division of Housing administers housing development and community preservation programs, oversees and regulates the State's public and publicly assisted rental housing, administers the rent regulation system in the City of New York and surrounding counties, and also oversees the Mitchell-Lama housing stock.

Prior to becoming commissioner of the State Division of Housing, I was a HUD Director of Multi-Family Housing for the New York City Region. From there, I oversaw the portfolio of federally financed affordable housing the New York City area. And in my role at HUD, I became very familiar with Starrett City and its unique character.

I am both humbled and honored that Governor Spitzer selected me to serve the people of the State of New York as commissioner of DHCR. I am humbled to be charged with the responsibilities of this position at a time when we face a critical shortage of affordable housing. And I am honored to be part of an administration that clearly recognizes the significance of our existing affordable housing stock, and is committed to preserving it.

There is no doubt that housing is vital to the future of our Nation. And as Governor Spitzer has stated, the affordability crisis we face threatens to, as he stated, strangle future economic growth and crush the dreams of families, young and old.

The Mitchell-Lama program, of which Starrett City is a part, has helped us address this problem, and has provided affordable housing opportunities to hundreds of thousands of middle-income families.

Mitchell-Lama was established in 1955 to serve low- and moderate-income New Yorkers. It was named for the legislation's sponsors, Senator Mitchell and Assemblyman Lama, and it serves as a national model for successful affordable housing.

Despite its successes, the Mitchell-Lama program now faces grave threats that demand creative solutions. From the original portfolio of 270 State-financed Mitchell-Lama developments, 190 remain under DHCR's supervision. Many of these are in dire need of costly repairs, updates, or major overhauls of heating systems, roofs, or elevators.

The maelstrom that resulted over Clipper Equity's proposed sale of Starrett City is a perfect illustration of the challenges we face. We cannot build our way out of our housing crisis. We must maintain and preserve what we have.

It was in my first week as Commissioner that Clipper Equity signed its contract to purchase Starrett City. The purchase price, an astronomical $1.3 billion, raised immediate concerns that the

purchaser would be unable to retain Starrett City's long-term affordability and continue the high-quality maintenance of the complex.

As a regulating agency, DHCR was asked, along with HUD, to review Clipper Equity's proposal and approve the sale and the refinancing of Starrett City, making us a central figure in the battle to protect Starrett City's residents and keep its nearly 6,000 units affordable.

DHCR concluded that in addition to a purchase price that was far too high to support the mortgage at current rent levels, the plan failed to adequately ensure long-term affordability at Starrett City. We therefore rejected the proposal and have not been approached again, thank you.

Perhaps the most significant lesson that we learned from Starrett City is that when various levels of government speak with one voice to protect the public, we can accomplish great things.

DHCR, HUD, the New York State Housing Finance Agency, which holds the mortgage on Starrett City, and the New York City Department of Housing Preservation and Development, under the leadership of Shaun Donovan, mobilized together to communicate the importance of Starrett City's long-term affordability to the community, the owners, the prospective buyer, and the tenants. I am convinced that this unprecedented level of cooperation and coordination was a major factor in our success in keeping Starrett City as viable, affordable housing.

I am equally confident that this experience will serve to make us an even stronger force together in the face of any future challenges to our affordable housing stock.

I have to thank Senator Schumer for his steadfast support and commitment to preserving Starrett City and protecting its residents. He was instrumental in this effort. Senator Schumer, along with Congressman Towns, City Council President Quinn, Assemblyman Lopez, and Councilman Barron really provided extraordinary leadership, and they led the charge to rally the tenant organizations in opposing the sale. Their support was invaluable.

I also have to acknowledge the extraordinary leadership of Marie Purnell of the Tenants Association and of ACORN. They worked together to organize an extremely effective campaign to oppose this sale.

As DHCR forges ahead with our mission to provide access to safe, affordable housing, we do so with renewed energy and a clear mandate for change. Governor Spitzer has declared the preservation of affordable housing a top priority of his administration. Our agency is now proactively engaged in a long-term strategy to seek and develop opportunities for preservation.

New York State has been a leader in the creation of affordable housing, and now we must lead the way towards its preservation for the future. I would like to briefly share with you some of the things that we are doing at the State level to answer the Governor's call.

We are working closely with the Housing Finance Agency to assess the State's Mitchell-Lama portfolio. And I think this goes to some of the conversations you were just having with Assistant Secretary Montgomery. We are trying to take a proactive approach to

our Mitchell-Lama housing stock, and to look at those developments before a sales contract is entered into. Before we hear about something in the newspaper, we are reaching out to the owners of those developments to say we want to talk to you about preservation, about what tools we can bring to the table.

We are collaborating to find the most effective preservation tools to encourage those owners to remain in our affordable housing programs.

We are also in the process of closely reviewing the properties financed in the early years of the Low-Income Housing Tax Credit program. We currently have more than 2,000 units that are beyond their first 15 years of occupancy, and another 15,000 set to pass that mark in the next 5 years. We are looking closely at this portfolio, as well, to determine which of those properties may need rehabilitation or should be targeted for other preservation efforts.

Chairwoman WATERS. I am sorry. The time has expired.

Ms. VANAMERONGEN. Okay.

Chairwoman WATERS. We have to make sure we get all of our panel in today.

Ms. VANAMERONGEN. All right. Thank you.

Chairwoman WATERS. So we have to move on. Thank you very much.

[The prepared statement of Ms. VanAmerongen can be found on page 78 of the appendix.]

Chairwoman WATERS. Next, Mr. Shaun Donovan. Commissioner, thank you. We are going to ask you to keep your testimony to 5 minutes.

STATEMENT OF SHAUN DONOVAN, COMMISSIONER, NEW YORK CITY DEPARTMENT OF HOUSING PRESERVATION AND DEVELOPMENT

Mr. DONOVAN. Good morning, Chairwoman Waters, and members of the subcommittee. I am Shaun Donovan, commissioner of the New York City Department of Housing Preservation and Development, or HPD, and I appreciate the opportunity to testify today about affordable housing preservation, and Starrett City, in particular.

It is a testament to the subcommittee's commitment to affordable housing preservation, and to the advocacy of our wonderful New York City delegation, that you are here today.

HPD's mission is to promote quality housing and viable neighborhoods for New Yorkers. As the Nation's largest municipal housing development agency, we partner with private, public, and community stakeholders to strengthen the neighborhoods of our City.

To meet that challenge, Mayor Bloomberg has undertaken the 10-year New Housing Marketplace Plan to fund the construction and rehabilitation of 165,000 affordable apartments and homes by 2013. We have already reached almost 40 percent of our goal. Nearly 65,000 new or preserved units of affordable housing have been funded, as of the end of June.

Keeping Starrett City affordable is a priority for Mayor Bloomberg and the City of New York. Starrett City is one of the most complex and heavily subsidized properties in the country, and there are many lessons to be learned here.

Nearly three-quarters of the units in Starrett City receive a J–51 property tax exemption from the City, which supported rehabilitation of the property and makes the units subject to rent stabilization if the complex were to buy out of the Mitchell-Lama program. That is something that hasn't been mentioned before today, that I think is extremely important.

Given all of the public investment in Starrett City, the number of units in the development, and the strong desire on the part of the current residents to remain here, it is easy to see why so many public officials support keeping Starrett City affordable. While HPD does not have the same right of approval for a potential sale of Starrett City as the State and Federal housing agencies, we have been working closely with our governmental partners to evaluate the potential sale. This has been an ongoing and particularly effective collaboration and is a great example of the impact that various levels of government can have when we work together, as Congresswoman Velazquez stated earlier.

We are very concerned that there is no viable way for Starrett City to remain affordable and well-maintained at the proposed sale price of $1.3 billion. This view is reinforced by Clipper's own plan for the property. They are asking to raise the rent above what is allowed by current regulations, despite the fact that the large majority of the units are covered by the J–51 program that I mentioned, which requires them to remain at affordable Mitchell-Lama rents or in rent stabilization. At the same time, they are asking for a continuation of the $50 million tax abate—property tax abatement from the City.

In short, the only way for this proposal to work is for the proposed buyer to obtain rents that are market rate, and to obtain a maximum infusion of subsidies from the Federal, State, and city governments. This will not occur. Clipper Equity's proposal is a mistake for affordable housing and a mistake for taxpayers.

We are extremely pleased with HUD Secretary Jackson's decision to deny Clipper Equity the right to buy the development and the similar determination by the New York State Division of Housing and Community Renewal to reject it, as well. And let me say, I am particularly encouraged by the new focus on preservation that the Spitzer administration has brought, and Deborah VanAmerongen has brought.

I also would have to say that HUD has been an absolutely critical partner in New York City's preservation efforts, as Assistant Secretary Montgomery talked about in his testimony. Yet, we believe there are many more opportunities for cooperation, especially if Congress were to pass affordable housing preservation legislation.

As I mentioned, over 2,300 units in Starrett receive rental assistance payments, or RAP, which pay the difference between what a low- or moderate-income tenant can afford to pay and the actual contract rent paid to the owner. RAP, along with its counterpart program, rent supplement, or Rent Supp, is decades old and antiquated.

There are more than 35,000 RAP and Rent Supp units nationwide, across 34 States. Unlike the newer, project-based Section 8 program that replaced them, RAP and Rent Supplement contracts

can be terminated at any time and are not renewable. The RAP contract ends at Starrett in 2016, along with the guarantee of affordable housing for 2,300 families.

A solution would be legislation that allows owners with RAP or Rent Supp contracts to convert to project-based Section 8. There are benefits to both owners and tenants. Owners get the option of getting fair rents from HUD at no cost to the tenants and the option to renew the contract, a very appealing option in strong markets such as New York and California. Tenants get better protection, because there are greater incentives for an owner to continue in the Federal program, and should the owner choose to leave the program, the tenants are guaranteed a housing voucher that allows them to stay in their home.

Converting the RAP contract at Starrett to a project-based Section 8 contract is, in my view, the single most effective way to preserve affordability at Starrett City.

While opt-outs pose a major threat to the Federal stock of affordable housing in strong market areas, there is also the problem of HUD-insured distressed housing in danger of foreclosure. While, in the past, units of local government were able to exercise their statutory right of first refusal to purchase these properties from HUD and maintain them as affordable housing, changes in HUD's property valuation methodology have effectively suspended the program.

HUD is interpreting language in the Deficit Reduction Act of 2005, the DRA, as requiring them to disregard the repair needs of a property when valuing it for a right of first refusal. This change has meant that HUD is asking above market price for properties. As a result, no properties have been sold under right of first refusal in the entire country since passage of the DRA. Legislation, as contained in Congresswoman Velazquez's bill, H.R. 44, and in H.R. 1852, is needed to require HUD to fairly value properties when selling to units of local government.

And let me just take a moment to compliment Congresswoman Velazquez for her focus on housing preservation and affordability. Senator Schumer has also been very helpful in trying to find a solution to this problem in the Senate. In New York City alone, we believe we can preserve thousands of units of affordable housing if the right of first refusal were reinstated.

There are a number of other potential preservation measures that we recommend in my written testimony, and I will leave those for the record later.

In closing, I would like to thank you for the opportunity to testify and for prioritizing affordable housing preservation. The subcommittee's leadership has been crucial to the success we have had in developing and preserving affordable housing in New York City, and across the Nation.

Thank you.

[The prepared statement of Mr. Donovan can be found on page 60 of the appendix.]

Chairwoman WATERS. Thank you very much. Thank you, Commissioner.

Mr. Arriaga?

STATEMENT OF FREDERICK C. ARRIAGA, COUNSEL, BOROUGH OF BROOKLYN

Mr. ARRIAGA. Thank you. Good morning, Chairwoman Waters, members of the subcommittee, and Members of Congress.

My name is Frederick C. Arriaga. I am counsel for Brooklyn Borough President Marty Markowitz, and I am here on behalf of Borough President Markowitz, to read the following testimony:

Thank you for holding this hearing at Starrett City, which, as we know, is the epicenter of the fight to preserve affordable housing in New York City and America.

Starrett City is the epitome of successful, modern, diverse, and affordable urban living anywhere. And make no mistake, as Starrett City goes, so goes affordable housing in this Nation.

Starrett City has over 16,000 tenants, 5,881 units in 56 buildings on 153 acres of land. In fact, the development is so large that it has its own security force, and publishes a newspaper called The Spring Creek Sun.

And yet, Starrett City's immensity is humanized by its remarkable sense of community. Every day in Starrett City, thousands of tenants of different races, religions, ethnicities, national origins, and incomes live peacefully, side-by-side.

Starrett City is an example of how partnerships between tenants and government agencies can build, maintain, and preserve quality affordable housing.

And by the way, the Starrett City Tenants Association and its President, Marie Purnell, are to be commended for their tireless efforts to preserve affordable housing and to improve our quality of life.

We are here today because the very existence of Starrett City and other affordable housing developments is threatened. Seven months ago, when Starrett City was put up for sale, I joined a group comprised of residents, housing advocates and elected officials at every level of government to learn more about the proposed sale and what its impact would be on residents and the future of the development.

We were dismayed that the sale would be conducted through a secret bidding process in which bidders signed confidentiality agreements with the seller. Without transparency, there was no way to communicate to the prospective bidders the importance of maintaining Starrett City as affordable housing.

We were shocked when we learned of the winning bid, since we knew that the final bid of $1.3 billion would threaten the long-term affordability of the development. Fortunately, the Federal and State governments agreed with that conclusion and rejected the proposed sale.

By the way, I commend and offer my continued support to HUD Secretary Alphonso Jackson and New York State Division of Housing and Community Renewal Commissioner Deborah VanAmerongen for their decisive action to reject the proposed sale.

While the successful bidder has made assurances that Starrett City will remain affordable, I cannot help but join residents who are concerned about the realization of those assurances in the future. We all fear that Starrett City will not be affordable for our children or our children's children.

The proposed sale of Starrett City has taught us the following:

Voluntary plans to keep housing affordable do not guarantee affordability. When the homes of people who have resided in them for 30 years are at stake, we need laws that determine affordability, not just the promises of developers.

Government and regulatory agencies must continue to be vigilant in scrutinizing proposed sales of developments in affordable housing programs like Mitchell-Lama, both here in New York State, and in the project-based Section 8 program nationwide.

HUD, DHCR, and other State housing agencies must retain oversight and regulatory jurisdiction over affordable housing programs. In fact, the scope of that jurisdiction needs to be expanded and strengthened, so that owners comply with all affordable housing regulations. Furthermore, Federal and State government agencies must be given a mandate, and must have the authority to guarantee that owners provide tenants with not only affordable housing, but housing that is also clean, safe, and secure.

We need legislation on the books to protect tenants in buildings whose owners do leave Mitchell-Lama and project-based Section 8 programs. Long-standing tenants should not be subjected to market rate rents if their developments opt out of an affordable housing program.

With regard to vouchers, while enhanced vouchers allow eligible tenants to pay rent increases after a development opts out of a program, vouchers present three significant deficiencies:

Vouchers do not guarantee that the unit remains affordable for future tenants when the voucher is issued to the current tenant and is portable.

And even tenants who are eligible for enhanced vouchers may lose their vouchers for failing to certify, a complicated and often harrowing process. Other tenants may run the risk of losing their eligibility because of the dizzying variety of factors that affect that eligibility.

And the third deficiency regarding vouchers is the fact that they are subject to funding. What happens if funds for enhanced vouchers are reduced or eliminated? How will tenants pay the increases that result from their development, leaving the Mitchell-Lama program?

Until these issues regarding enhanced vouchers are addressed, tenants in Mitchell-Lama developments who face potential buyouts are not fully protected.

And finally, in closing, New York's booming real estate market has made affordable housing very appealing to real estate developers. Many developers pledge that the buildings will remain affordable after purchase, but we cannot rely solely on those promises. There is too much at stake.

Starrett City is the pride of Brooklyn, and I applaud the Congress Members' efforts to preserve affordable housing.

Thank you.

[The prepared statement of Mr. Arriaga can be found on page 49 of the appendix.]

Chairwoman WATERS. Thank you.

Next, we will hear from Ms. Marie Purnell, the president of the Starrett City Tenants Association.

STATEMENT OF MARIE PURNELL, PRESIDENT, STARRETT CITY TENANTS ASSOCIATION

Ms. PURNELL. Good afternoon, Chairwoman Waters. Thank you so much for coming to Starrett City, and I also thank all of the members of your board. I can't read all the names, so I am just going to leave it at that, and thank you from the bottom of my heart.

Chairwoman WATERS. You are welcome.

Ms. PURNELL. My testimony is a little different from the ones you have been hearing. It is more of a human nature type of thing.

I have lived in the East New York section of Brooklyn for about 50 years. I lived in the Cypress Hills city projects for about 20 years. I remember that letters had gone out to check for the public's interest if a condominium or cooperative development were to be built on the vacant land by Jamaica Bay. Eventually, the decision was made to build affordable housing, Starrett City.

My son, who had seen the Starrett development go up, asked me why we couldn't live there. I told him that it was not affordable for us. At the time, my rent at Cypress Hills was $155 a month. Moving to Starrett would have cost $285 for a two-bedroom apartment with a terrace.

I knew I had to do what was necessary, so I saved and cut corners to make sure that if the interview process was successful, I would be able to manage this. I saw the model apartments in 1975, and in 1976, my son and I moved into the development.

Starrett City is my home, plain and simple. My family has always been happy and content here. My son grew up, got married, and moved into his own apartment in Starrett, where he raised his daughter. As a teenager, my granddaughter got her first job at Starrett City, and I got involved in all the activities, such as the Judo Club, the teen basketball club, the Lions Club, and within 5 years, I became involved with the Starrett City Tenants Association, Inc.

Coming to Starrett in my mid-40's let me feel like I had a second chance at providing a good lifestyle for my family, and 30 years later, I feel that I have succeeded. I was working full time at Chase Manhattan Bank, where I eventually became an assistant treasurer, and I was able to commute to work on a private bus line, now being run by the MTA bus service, to Manhattan. Shopping was convenient. I felt that I was providing properly for my family and the quality of life was great. My son and I knew that once we crossed Flatlands Avenue into Starrett, we were safe, thanks to the private security in place at Starrett City.

When I retired from the bank, I became more active in the Tenants Association and took the position of building rep at my building where I live.

My main concern with the sale of Starrett City is the changes that clearly will have to occur. I don't see how the rent would stay affordable. I am concerned about services that are in place, such as maintenance, security, and the accessibility to management.

My neighbors have expressed the same concern. There are many unknowns, and that makes people nervous, resistant, and apprehensive. It is very difficult to engage with such an audience.

My quality of life is excellent, as I have indicated before. Something as simple as a terrace and a garage to park safely give me so much pride. And I am renting, but I feel like an owner. I am concerned about the services being cut, particularly security and maintenance. If one needed repairs within the apartment, a simple phone call to the maintenance office was all that had to be done.

Public Service, as we are now calling our security, is also on call for all situations of unbelievable occurrence. I recall having a personal medical situation, and before EMS could arrive on the scene, Starrett's security officers were with me, comforting me, and I felt so much safer knowing that this was possible because of where I lived.

To further the quality of life issue, I think that the relationship among the tenants should be noted. Again, I had a personal experience tied to my medical emergency that I had just spoken of, where I was bedridden for approximately 3 months. My next-door neighbor, who has roots back to Russia, literally prepared and fed me breakfast for my entire time of disability. She cared for me every single day, among other tenants. This type of country-like atmosphere can only be fostered in a neighborhood where the tenants truly care for each other and will step up and treat each other with the respect and dignity that one would find in a family.

As far as the sale is concerned, I don't see how a $1.3 billion price tag could not affect the quality of my life. Where is the money coming from to pay for the services if so much money is being paid for the development? How many people will be forced to move, thus changing the entire mission of the Starrett community?

I have to believe that I will definitely get a rent increase. Depending on the percentage, it is doubtful that I could remain here. I am already paying 30 percent of my Social Security and retirement income. A high increase will definitely affect my ability to reside in the home that I have been in for over 30 years.

I think that there will definitely be a change to the subsidies. I don't have enough detail about Mitchell-Lama, but the owner opting out of the program clearly cannot be beneficial to the tenants who are participating in the program. I am currently a participant in the RAP program and do not know if this program will stay in effect.

As far as prepaying the mortgage, I don't have enough information—I have it now, though—to testify to this. Truth be told, I do not know who holds the mortgage right now. We were thrown into a situation, and we are learning day-by-day as to the rules, regulations, and repercussions behind the sale, housing laws, etc.

Management did assure us, however, that Starrett would not be sold back in September 2006. They also said that 90 percent of the tenants would not be affected. However, in December 2006, just before the holidays, we learned on the news that a deal was being made to sell the development. We had three meetings at this time with Carol Deane, representing her husband/owner, Disque Deane, their nephew, Kurt Deane, who is apparently managing the business operations and—

Chairwoman WATERS. Ms. Purnell? I am so sorry. Your time has expired. Could you wrap it up for us?

Ms. PURNELL. Yes, I can.

A single meeting, which basically consisted of a meeting that we had of a PowerPoint presentation by Clipper, ACORN, and the Office of the City Council. Clipper, however, didn't say much of anything which would yield any constructive information in the opinion of the STA, but they did promise future meetings, none of which materialized.

They would not give the STA Board clear answers, and this is why we turned down the tenants' meeting. Tenants were really feeling concerned about the information we were receiving.

The first thing that is pertinent to the tenants is the immediate end of the secrecy by owners and potential buyers. Transparency is critical. There should be notices available to tenants, just like we have right now, when they want to inform us of rent increases. The Starrett Tenants' Association is willing to work with management to keep tenants in the loop.

We should acknowledge that the sale will go on, no matter, to someone. It should be expected that some things will change. What we in Starrett have grown used to will change.

Chairwoman WATERS. Ms. Purnell?

Ms. PURNELL. However, retention of all subsidy programs should be a priority.

Chairwoman WATERS. Ms. Purnell, we are going to have to hear the rest of—we will get your testimony, and we will insert it in the record.

Ms. PURNELL. Okay.

Chairwoman WATERS. We got the point. You did it well. Thank you very, very much.

Ms. PURNELL. Okay. Thank you.

Chairwoman WATERS. Next, we will hear from Ms. Jerilyn Perine, executive director, Citizens Housing and Planning Council.

STATEMENT OF JERILYN PERINE, EXECUTIVE DIRECTOR, CITIZENS HOUSING AND PLANNING COUNCIL

Ms. PERINE. Good morning. My name is Jerilyn Perine, and I am the executive director of the Citizens Housing and Planning Council, one of New York City's oldest civilian research and policy organizations. Thank you so much for giving me the opportunity to testify. And I particularly would like to welcome our members from outside of New York to Brooklyn.

The sale of Starrett City raises a primary public policy issue. What is the role of government when government-financed programs come to the end of their term?

In Starrett City, and in many other projects, there is a widespread concern that the proposed purchase price is simply too high to allow for proper capital investment, maintenance, and the operation, raising questions about the intent of the proposed new owners and the future of the project's physical and financial viability. Starrett City is but one example of a growing trend of high-cost purchases which raise grave questions as to the continued viability of such housing.

In the case of Starrett City, as many as 20,000 people may bear the consequences. As this phenomenon grows, many more people are facing the same problem.

Starrett City is the largest subsidized housing development in the United States, and has achieved affordability through a cornucopia of subsidy programs from every level of government. As a result, 62 percent of the households in Starrett City currently receive direct rental assistance. Another 1,600 of the apartments are restricted to households earning less than 80 percent of the area median. In total, 88 percent of Starrett City's households earn less than 80 percent of the HUD area minimum.

While it is clear that the government has a valid interest in this project, unfortunately most regulations are not currently designed to prevent potentially bad owners from purchasing such projects, nor do they mitigate against highly speculative prices which may call into question the future viability of the projects. And while Starrett City shows clearly what can happen when tenants are organized and can mobilize political pressure, legislative changes are required to ensure that the sale of all projects which were the beneficiary of significant government investment are properly reviewed and protected.

That review should have two objectives: One, to evaluate the track record of the proposed purchaser; and two, to determine if the sale price is based on sound financial principles.

Currently, HUD does have a process for that review. And in this case, they have determined that the proposed purchase would threaten the project's future affordability. However, the review process is flawed.

HUD currently reviews the new owner's participation in other HUD projects, whether they are debarred by the Federal Government, whether they have been convicted of a crime, or whether they have defaulted on Federal or local housing finance agency loans. There is, however, a need to go further. And by going further, this needs to be codified in law and in rule.

Congress did make some changes in 2004. However, they did not mandate a similar review where HUD-financed projects, not just HUD-owned projects like this one, were transferred from one owner to another. Congress should require such a review. Without such a mandated review, projects without the attention that Starrett City received will continue to be subject to a case-by-case review, sometimes with a good outcome, but not necessarily so.

In New York City, as a result of an extremely hot real estate market, we have seen numerous purchases of rental housing, both regulated and unregulated, at prices that raise serious questions about the continuing viability of the buildings.

Owners of subsidized projects such as Starrett City have a right to ask that the governments live up to their original deal, allowing an end to the restriction periods that were originally agreed to. At the same time, it is not unreasonable for the government to seek to ensure that its considerable investment remains financially and physically viable into the future. If additional affordability is desired, owners should be compensated.

The State of New York is considering legislation to make reforms to their process. The details are in my written testimony.

At the Federal level, Congress should mandate that the review of purchasers of federally subsidized housing should include the track record of the new owner beyond HUD-subsidized housing.

The new owner's performance on housing maintenance and construction should be reviewed by HUD in concert with local authorities, prior to HUD approving any such purchase. HUD should also review the purchase price to ensure that it is based on a reasonable expectation of rental income and future capital appreciation.

This principle has been included in H.R. 44, introduced by Congresswoman Nydia Velazquez in January of this year. Congress should pass it and the President should sign it.

Last and most important, it is time to consider how to reconfigure some of our rent and tax subsidy programs, to target assistance to tenants in projects that may be sold. The Section 8 enhanced voucher program does this in part. However, it should be expanded to non-federally assisted projects such as Mitchell-Lama. The City and State should also consider real estate tax abatement programs that are geared to rewarding owners for keeping rents affordable.

We are hopeful that your interest in the sale of this project will extend to all federally funded projects, and that you will pass H.R. 44.

Thank you.

[The prepared statement of Ms. Perine can be found on page 75 of the appendix.]

Chairwoman WATERS. Thank you.

Mr. Rafael Cestero, senior vice president, Enterprise Community Partners.

STATEMENT OF RAFAEL CESTERO, SENIOR VICE PRESIDENT, ENTERPRISE COMMUNITY PARTNERS, INC.

Mr. CESTERO. Thank you, Chairwoman Waters, and distinguished members of the committee, for the opportunity to speak to you today.

My name is Rafael Cestero, and I am the senior vice president for field operations and program support at Enterprise Community Partners.

Enterprise is a national organization, founded in 1982, that works with thousands of nonprofit organizations, local governments, financial institutions, and private corporations around the country to create and preserve over 215,000 homes, and has invested over $8 billion in communities across the country in the last 25 years.

The past decade has not been friendly to preserving affordable housing. Approximately 170,000 public housing units have been lost to neglect and deterioration, while much of the remaining public housing stock is in need of substantial renovation and rehabilitation. At the same time, 1.4 million units of privately owned, federally subsidized housing face preservation and rehabilitation challenges.

The loss of affordable housing units is primarily due to owners who choose not to renew subsidized contracts, gentrifying markets, a continued uncertainty over tenant and project-based Section 8 appropriations, and tax depreciation recapture issues faced by many investors.

However, despite these obstacles, Enterprise is committed to finding solutions to preserve affordable housing nationwide. In

2006 alone, we have refinanced over 30 properties that had HUD financing or subsidies. These properties will now remain affordable for another 30 years, and the proceeds from refinancing will allow additional capital investment, increased support services, and are used to create more affordable housing units.

Our experience shows that it costs much less to preserve than to replace. We estimate that the tax credit equity needed to rehabilitate an apartment is half of that needed to create a new one.

We have also created partnerships with local, State, and Federal Government, which are making great strides towards preserving housing in those cities and States.

Six years ago, only six States set aside 9 percent Low-Income Housing Tax Credits for affordable housing preservation. Today, 46 States set aside credits in their qualified allocation plans. New York State and New York City allocate significant amounts of the 9 percent tax credit allocation in their tax-exempt bond volume cap to preserve affordable housing. And over the last several years, this has led to the preservation of 40,000 units in New York City.

One of the most crucial elements in preserving affordable housing is the ability to find capital to acquire property. To meet these needs, we have launched acquisition funds in New York City, the District of Columbia, and hope to close funds soon in Los Angeles and Atlanta, to allow nonprofit organizations to acquire affordable housing projects.

In the District of Columbia Preservation Fund is an acquisition loan product which is strictly for preserving multifamily housing. This $28 million fund, with a combination of private and public funds, provides acquisition and predevelopment financing for nonprofit sponsors. To date, this fund has preserved 600 units of housing in the District of Columbia.

As in the District of Columbia, the affordable housing challenge in New York City has never been more severe than today. While unsubsidized rents and affordability restrictions in programs like Mitchell-Lama are ended, the housing stock is quickly trending to rates only the wealthiest can afford. In 2004, Enterprise pledged $1 billion to create and preserve 15,000 homes by 2008, in support of Mayor Michael Bloomberg's New Housing Marketplace Plan. We are now more than halfway there.

Enterprise is committed to doing all it can to preserve such affordable housing complexes like Starrett City. We conducted an analysis in partnership with ACORN that is in my written testimony, that shows very clearly that $1.3 billion is not supported.

We urge the passage of H.R. 44, as other members have, as well as the Federal laws that have been talked about in other testimony presented today.

Chairwoman WATERS. I am sorry. Your time has expired.

Mr. CESTERO. Thank you.

Chairwoman WATERS. Thank you very much.

[The prepared statement of Mr. Cestero can be found on page 54 of the appendix.]

Chairwoman WATERS. Representing ACORN, Ms. Pazant.

STATEMENT OF SHIRLEY PAZANT, ACORN MEMBER

Ms. PAZANT. Thank you, Chairwoman Waters, Members of Congress, Congressman Towns, and members of the committee. I thank you so much for the opportunity to testify today about the affordable housing situation in Starrett City.

My name is Shirley Pazant, and I am a retired nurse. I have lived in Starrett for 8 years, and I am a very active member of the Association of Community Organizations for Reform, known as ACORN, and also a member of the Starrett City STA.

I had attempted to move into Starrett City for 10 years, and when I finally got the call and I was able to move in, I was very, very happy. As a woman living on a fixed income, I feel it is safe and secure living here. I know that if we—whoever has to move, there will be nothing out there that will be as beautiful as Starrett, and nothing that would work for our income level.

My grandchildren, and my great-grandchildren, look forward to coming to visit from Bed-Stuy because of the safe places available for them to run around and be children; that is really hard to come by in their home neighborhoods.

Starrett City is truly our home. The neighbors come together as one big, happy family, regardless of race and culture. We have built a home here that could not be duplicated any other place. The community is a wonderful place not only for those of us who have retired here, but for every person at any stage of their life.

So affordability has allowed parents to save for their children to go to college. Affordable rents and a welcoming, diverse community benefits everyone who has the pleasure of calling Starrett City their home.

My testimony today will focus on the community's concern with Clipper Equity as a potential owner of Starrett, especially in regard to affordability, as well as our group's recommendations to local, State, and Federal representatives. Whether it be Clipper or another owner, many of our concerns are constructive as we look forward to what we will have to miss.

The cornerstone of all of this is affordability. Ninety percent of the tenants here rely not only on low rent, but on the variety of rental assistance programs that have been available all these years. I am currently enrolled in the Section 8 program, as are other residents, many of whom are seniors. As seniors, we are very troubled by the idea that someone could come in here and displace our community by pricing us out.

The research that ACORN and its partners have conducted shows that in order for Clipper Equity to keep Starrett affordable, they would have to receive huge additional government subsidies, reduce service, and raise rents. This is not a solution at all as far as we tenants are concerned.

When it was announced that Clipper Equity would be buying Starrett, we decided to gather research on Clipper's other complex in Brooklyn, the East Flatbush Gardens, better known as Vanderveer. We looked at the buildings' department records for any violations, and we knocked on doors and talked to tenants. We got information about complaints about the lack of heat and hot water, holes in the ceilings, and unsanitary living conditions.

In the process of our work, we discovered that Flatbush Gardens had almost 8,106 building code violations, and over 1,400 new violations logged in since Clipper took the property. I have copies here of a PowerPoint presentation about what we found, if anyone would like them.

Starrett City is special not only because it is affordable, safe, and diverse, but because the grounds and buildings are beautiful and well maintained. If something goes wrong in our apartments, it gets fixed right away. This is clearly not the case at Clipper's other properties.

We know that there are economically viable and profitable solutions to keep Starrett City affordable that will not overburden the government and, more importantly, will allow the tenants to keep our homes, continue to receive key maintenance services, and maintain the economic diversity of Starrett City into the future.

ACORN and the Starrett City Tenants Association stand united in our fight to make sure that Starrett City remains affordable, especially for future generations.

Over the years, government has stepped in through a patchwork of subsidies that have allowed this development to develop into a place with such economic and racial diversity. Now, right now, we need local, State, and Federal legislation to protect tenants like us all around the country. We need you, and we need you now, to protect not only this generation of tenants, but also future generations from developers looking only to make a profit off of the communities.

Chairwoman WATERS. Ms. Pazant—

Ms. PAZANT. We have asked New York State to pass legislation so that any—

Chairwoman WATERS. Ms. Pazant—

Ms. PAZANT. —owner opting out of the Mitchell-Lama program be coupled by rent regulation—

Chairwoman WATERS. Ms. Pazant, I am sorry. Your time has expired. You did a great job. Thank you very, very much. And thanks to ACORN all over the country. You are doing a fabulous job.

Ms. PAZANT. I want to thank you for taking the time to listen to me and those I represent, ACORN, Starrett City, and the people who have worked hard all our lives.

Thank you.

Chairwoman WATERS. Thank you.

[The prepared statement of Ms. Pazant can be found on page 71 of the appendix.]

Chairwoman WATERS. Now, I want to take most of my 5 minutes to thank each of you. This has been an extraordinary example of what cooperation can and will do.

And I think that you mentioned in your testimony, Ms. VanAmerongen—I am going to get this right—

Mr. TOWNS. VanAmerongen—

Chairwoman WATERS. —you mentioned in your testimony that this was a baptism by fire.

Ms. VANAMERONGEN. Yes, it was.

Chairwoman WATERS. It was in your written testimony, rather, but you alluded to the fact that this overall proposal was really trying to get you to act beyond your statutory authority.

Could you just give us an example of what that means, quickly?

Ms. VANAMERONGEN. What we found in the Clipper Equity proposal was that they were suggesting that we should allow them to call themselves Mitchell-Lama and claim to be maintaining affordability, to actually treat it differently than any other Mitchell-Lama, or differently than what we believe our statutory authority allowed us to do.

So, for instance, every Mitchell-Lama has to go through a budget-based rent increase process, and a review of the operations of the building, to try to keep the rents as low as possible, but provide enough money for them to operate. They wanted to have all of the rents set at market, and then subject to rent-stabilized, guarantee-type increases going forward.

So those are the kinds of things that they were asking us to do, so that they continue to claim their real property tax benefits from the City of New York, and to say that they are maintaining affordability, call themselves a Mitchell-Lama, but they really would not have been.

Chairwoman WATERS. Thank you very much.

Mr. Donovan, I know you are going to have to leave by 1:00, but you mentioned something that I think we certainly should be paying attention to as far as legislation, the conversion of RAP to Section 8.

I didn't realize we had such a program where there was some difference being paid between what was afforded by the tenant and the market rate in some way. It certainly should all be one program, and there may be some room for legislation here.

Do you want to expound on that, before you go?

Mr. DONOVAN. Absolutely. And I would say, in deference to HUD, one of the most effective things that they have done in New York City—and Deborah at the New York local office was instrumental in doing this—thousands of units of HUD housing have been preserved around New York City by the Mark-to-Market program.

That program is only available to project-based Section 8 properties; it is not available to RAP and Rent Supp properties. So it is not just critical that the conversion of these old, antiquated—they really were the predecessors to the project-based Section 8 program, and it was fixed decades ago by inventing the new project-based Section 8 program. But these two dinosaurs, really, are still around.

Not only can they not be renewed, as I said, so once it is gone, it is gone, and there is no chance for long-term preservation of the property for low-income people; in addition to that, there are all kinds of preservation opportunities available to project-based Section 8 properties that could help not only stop the Clipper proposal, but in fact, could for the current owner, or any new owner, make it more attractive financially to remain a low-income property than to convert to market rate.

So again, I think that is particularly important. With this flexibility, the owners could win and the tenants could win, by continuing with the affordability of the property.

Chairwoman WATERS. Thank you so very much. And thank you for being here today. The cooperation between you and the State

and the Feds is wonderful. We know you have to leave, but we really appreciate your presence. Thank you.

Mr. DONOVAN. Thank you. And let me compliment you and your staff on all the hard work you have been doing around the country.

Chairwoman WATERS. Well, you are certainly welcome.

Mr. DONOVAN. Thank you.

Chairwoman WATERS. Well, again, I will wrap up by thanking each of you. You see the power of the residents and the tenants, and because you decided to take leadership, you made something happen here. You should be very, very proud of that.

So, Ms. Purnell and Ms. Pazant, I want to thank you very much.

To our others who are represented here today, I want to mention to you—I don't know if it was you, Mr. Arriaga, who mentioned that part of this agreement was supposedly confidential, and we didn't know who the other buyers were.

We should wipe that out. We should not allow that to happen on these kinds of proposed sales. We want to know who it is who is supposedly buying these. And so maybe that has some room for legislation, too, and I want to thank you very much for that.

Again, here, we have the cooperation of a nonprofit in the business of providing affordable housing. Enterprise, you are showing up everywhere. You are showing up good. We thank you very much for your participation.

Again, the residents are primary in everything. So thank you all very much, and I just appreciate your participation. Thank you.

And I will turn to my colleague, Mr. Shays, for questions.

Mr. SHAYS. Thank you, Madam Chairwoman.

I do not have any questions, but I want to thank the government officials for being here. And I thank those in the community for coming to testify.

I was struck by the fact that all the presentations were informative, they were forceful, and they were kind. It is very clear to me that Starrett City is a lovely place to live.

I wanted to particularly thank you for the gentleness with which you are talking about a very emotional issue. That is a much better way to communicate and to make your points, and so I found that tremendous.

I enjoyed talking with three young men who were sitting on the floor—one was in 2nd grade, one was in 4th grade, and one was going into 5th grade—and they just told me how much they love living in this wonderful community. You clearly are a family, and I look forward to seeing this family have a long and prosperous life. So thank you for having me.

And thank you, again, Madam Chairwoman. And Mr. Towns, and to my other New York colleagues, congratulations on a job well done.

Chairwoman WATERS. Thank you so very much, Mr. Shays, for being here. It shows you that we have cooperation on both sides of the aisle. We don't always get along on everything, but on Starrett City, we are together.

All right. We are going to turn to Mr. Ellison for questions.

Mr. Ellison, yes.

Mr. ELLISON. My question for Mr. Cestero is this:

Obviously, while Starrett City is the largest federally subsidized community, there are others around the country. What are your recommendations going forward?

As we go forward, and we see that other such communities could be purchased, what are some of the things that we need to bear in mind? What are some of the proposals that you have to make sure that we can maintain affordability?

Mr. CESTERO. It is quite clear, as you look around the country—and you have heard it here today—that Starrett City is a unique property in many ways: It is unique in its size; it is unique in the kind of community that it is; and it is unique in the myriad of subsidies that have all come together in one place.

But I do think that there are some lessons that we can learn from this and that we can learn from preservation activity that has happened in this State, in this City, and across the country. One I talked about in my testimony, which is access to acquisition capital. The reality is that nonprofit affordable housing groups around the country that are interested in preserving these types of properties don't have the same access to capital that private owners do, so we need to continue to make that capital available.

There are a number of proposals that have been put forth in Congress that I would urge you to consider, because they would have an enormous effect on preservation around the country. The restoration of a grant program, the Section 8, the project-based Section 8 that Commissioner Donovan spoke about, is incredibly important.

And the early warning system that was talked about earlier is also incredibly important, so that we know what the properties are and when they are coming up.

Mr. ELLISON. What about the proposal for a housing trust fund in the legislation chiefly authored by Congresswoman Waters? Have you thought about that? And what sort of help it could be to maintain affordability?

Mr. CESTERO. There is no question that at the end of the day, more money makes the difference. And so the trust fund proposal that is put forth would bring more resources to the preservation of these projects; it can't be done without an infusion of additional capital.

And, in particular, the smaller properties are often in need of more rehabilitation, which means that we need additional subsidy dollars to be put on the table up front, in the form of a capital subsidy, that a trust fund would do.

We are lucky in New York State. In New York City, we have a City government that puts an enormous amount of money into affordable housing. We have a State government that has been at the table and a leader in the affordable housing movement. For the rest of the country, that don't have access to those resources, the national trust fund would provide more of those opportunities.

Mr. ELLISON. Well, Madam Chairwoman, I just want to thank you again for allowing me to be a part of this important subcommittee hearing. Your leadership—you amaze me every single time I see you, Madam Chairwoman.

And I just want to thank my colleagues, as well. And on my first trip to Brooklyn, I have had a great time so far. Thanks, everybody.

Chairwoman WATERS. Thank you.

Mr. TOWNS. Thank you, everybody.

Let me again begin by thanking the chairwoman for this hearing in Brooklyn, and to say to Congressman Ellison that I am proud that I was a part of the history, in terms of bringing him to Brooklyn.

And I would just share one other first with you. I also was the first one to bring Bill Clinton to Brooklyn. I want you to know that, too.

Let me direct my questions to, of course, Deborah VanAmerongen. I know you have been involved in housing for a number of years, and you have done great things. And some of the things we are talking about today that have sort of helped us along the way, are things that you have put in place.

And let me ask you this: What do you suggest, as Members of Congress—let's say we reverse positions, you know, for a moment—what do you think that we need to do, as Members of the United States Congress, to bring about affordable housing? To make certain that we keep affordable housing, what can we do?

Ms. VANAMERONGEN. I appreciate your compliment, Congressman, and it has been a pleasure working with you on many developments here in Brooklyn over the years, both at HUD and now at the State Division of Housing.

I think a lot of the legislative initiatives we have heard discussed here today would be of tremendous importance in being able to preserve housing. As Commissioner Donovan talked about, and it is something that, while I was at HUD, I talked to a lot of people about as well, the conversion of the older contracts to project-based Section 8.

Addressing some of what the problems are in the HUD programs, in terms of the up-front grants, and the sale of HUD foreclosed properties, would be—as you know, we have had a number of those go through foreclosure, which is great that HUD is aggressively going after bad owners to try to take properties away from them. But we have to work to ensure that they end up with people who are going to be responsible owners and maintain them as affordable housing.

And as the Congresswoman was talking about, the housing trust fund, which obviously we are very supportive of—and don't mistake what Rafael said in saying that New York doesn't need it. We need it, too.

Chairwoman WATERS. We know that.

Ms. VANAMERONGEN. Even though we have great State and City programs, we would love to see a national housing trust fund be brought to our State, as well.

I would like to see the work that HUD is talking about in terms of integrating their programs better with other programs. Getting section 202 and section 811 to work with the Low-Income Housing Tax Credit program is something that I am committed to doing, from the State perspective, as an administrator of the Low-Income Housing Tax Credit program. And the New York Regional Office

has been in direct contact with us, and we have been talking about how to make that work here in New York.

But there is—it could be done on the national level, and it would make it easier, but we would have to do a State-by-State solution to overcoming those kinds of problems.

So again, keep working with HUD, bring in whatever resources you could to the table in advance, and some of those legislative initiatives that have been discussed would all be of great importance here in New York.

Mr. TOWNS. Let me—just to bring my colleagues up to date. The State had a hearing, as well, which I insisted they have. The State had the hearing here, had 10 members of the Assembly, you know, in this room, talking about housing.

The one thing that came out of that, which I thought was quite interesting—and I want to take comments very quickly—they indicated that if a person is wanting to sell, they should give at least a 3-year notice. Now, I would like to just run down the line real quickly, on a sort of yea or nay, you know, type of thing.

Do you think that that might help the problem? Because what they said, basically, is that if the seller gives notice, then the various agencies would have an opportunity to put things in place that would protect the tenants.

Because what happens now, with the fact that there is no transparency, is that the only time you know about what is happening is when somebody has already made a bid. So—and that doesn't give the agencies a lot of time to be able to correct or to make certain that people are protected.

We have people in Starrett who have been there for over 30 years—senior citizens, many of them on disability, who are scared to death, and can't sleep at night, because they are concerned about the fact that their apartments might not be there.

Ms. VANAMERONGEN. I had not heard of the 3-year proposal. One of the things that I know people are giving some thought to currently is, if you wanted to opt out or buy out of the program, you must give a 1-year notification, which is State law. And I think that it would be appropriate to look at whether we should apply that same notification to sales, as well.

And I think, again it goes to what I was talking about in terms of us being proactive as agencies, though, in doing the outreach to owners. It is something that I didn't have a chance to insert into my testimony, but it came up earlier, so I wanted to mention it, in terms of the mention in the New York Times today about what might happen if this sale does not go through.

I think what we have—the word proactive isn't just talk. We have reached out to the owners of Starrett City, and have said, you know, the time under their existing contract—they had 6 months to get government approvals on this sale. So that time has almost elapsed; early August is the end of that 6-month period.

What we have done is reached out to them proactively, to say, before you make any other decisions about the future of this development, come and talk to us. Don't make up your mind and go and sell it to somebody else, and we will have to go through this whole mess again. We want to be at the table, engaged in those conversations, address the needs of tenants, and that is—we have—that is

the same thing we have to do with other owners in our portfolio. And as I said, we are reaching out proactively to many of them to talk about the future of their developments.

Mr. TOWNS. Thank you very much, Madam Chairwoman.

And on that note, let me just thank all of you for your testimony. I really appreciate, you know, being allowed. I know I had asked the question earlier down the line, but I am going to have to pass on it. The chairwoman gave me a look, so—

Chairwoman WATERS. Next, we will hear from our other Congresswoman, who came here today to give support to you in this district in what you are doing, Congresswoman Yvette Clarke.

Ms. CLARKE. Let me first thank you, Madam Chairwoman, again for coming. And let me say that Congressman Towns is truly a visionary. He has brought Keith Ellison here for his first visit. He brought Bill Clinton. He leads the fight. He is certainly a visionary, and I am just hitching my star to his wagon.

But let me say this, that when Maxine Waters comes to Brooklyn, you know it is about to be something.

I wanted, first of all, to congratulate you, Commissioner.

Ms. VANAMERONGEN. Thank you.

Ms. CLARKE. This is my first opportunity to actually meet you and to hear you, and I am encouraged.

One of the things that I kind of get hung up on, being a new Member, is how "yesterday" the rules and regulations are in governing our lives and the way that we go about doing business in the United States of America. There is a lot of drag back into the 20th century, and I am glad to see the type of innovation and enthusiasm you have in terms of making the transition which is in keeping with how modern we are as a society.

I wanted to ask you, because I have heard over and over again—and I have tried to distill best practices—I have heard, you know, from my constituents, from housing advocates, that there is a lot of pull in project-based Section 8.

Can you give us any indication of where the State is going with respect to how it will be rolled out? What type of assistance you would need from the Federal Government to really embed that as the way for us to get out of the old traditions that are no longer applicable for community preservation and affordable housing?

Ms. VANAMERONGEN. I am not sure. Are you asking about how we would use project-based Section 8 to preserve our housing?

Ms. CLARKE. We talked about the fact that RAP and—

Ms. VANAMERONGEN. The Rental Assistance Program.

Ms. CLARKE. Right. It is antiquated?

Ms. VANAMERONGEN. Yes.

Ms. CLARKE. —and that we want to look at how we can do these conversions, and I don't think you alluded to that point.

Have you successfully done that already? Is there something that we need to do in Congress to make this happen? Because it is older cities, like New York City and some of the oldest cities around the Nation, that are stuck in between right now.

Ms. VANAMERONGEN. Yes. Thank you for the clarification.

It actually was done once before. In the beginning years of the project-based Section 8 program, HUD offered owners who had those older forms of subsidies that they could convert, and many

of them took them up on the offer. But project-based Section 8 was new, and I think some of them weren't sure about exactly what it meant and how it would work, so some of them didn't do it.

Ms. CLARKE. Yes.

Ms. VANAMERONGEN. What they are saying, what we are saying now—and it would require congressional action to allow HUD to do that conversion, and it would reach out to the owners of those buildings; it would have no impact on the tenants—the rents of the tenants are set the same way under those older programs as they are in the project-based Section 8, and tenants pay 30 percent of their income.

But what it would give HUD the opportunity to do—and all of us are working to preserve this housing stock—is the opportunity to reach out to those owners proactively and say, here are the preservation tools we have available under the project-based program, and we want to talk to you about how to do a long-term extension of that, mark the project up, do a restructure of the mortgage, whatever needs to be done.

Ms. CLARKE. Thank you. I think that is a strategy that we have to aggressively pursue, as we look at the erosion.

I heard the gentleman from Enterprise talk about Washington, D.C., and as a new resident, I know exactly what the people of Washington, D.C., are going through right now in their housing market, and we see that increasingly here in New York City.

Let me just close by saying to everyone here, specifically to the tenant leadership, how very proud I am to be here with you as a witness, as an advocate with you. I can see this going forward, how children will be able to talk of the day when you women and men took the time to sacrifice for them, to make your voices heard, to let people know that there are people who have made the sacrifice, and who have given their time, time and time again, and all they request is housing with dignity.

You all have done that in royal style. I am so very proud to be here, and I will be here until the end.

Thank you very much, Madam Chairwoman.

Chairwoman WATERS. Thank you.

The Chair notes that some members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record.

Before we dismiss the panel, I would like to acknowledge Mr. Earl Williams and Ms. Jean Holden—where are you—and all of the staff at the Brooklyn Sports Club for your assistance in making this hearing possible.

Also, before we adjourn, the written statements of the following individuals will be made part of the record of this hearing:

Mr. David Bistricer, on behalf of Clipper Equity, and Mr. Disque Deane, on behalf of Starrett City Associates.

To the residents, thank you for understanding your power. Thank you for having good representation in Mr. Towns and Mr. Schumer and others. Thank you for having great leaders in the agencies from the City, from the State, and of course, from the Fed-

eral Government, who have come together and cooperated to make all of this happen.

This is what I like to see, when government is using its power to assist people in the way that we should be doing. I feel so very good about being here. This is a beautiful development. You are wonderful representatives. We are dedicated and committed to the proposition that we can do this not only here at Starrett, but all over the country.

Thank you very much.

The meeting is adjourned. Thank you.

[Whereupon, at 1:05 p.m., the hearing was adjourned.]

A P P E N D I X

July 10, 2007

Statement of Rep. Nydia M. Velázquez
Financial Services Committee Subcommittee on Housing
Hearing on:
Affordable Housing Preservation: Lessons from Starrett City
July 10, 2007

Thank you Chairwoman Waters for convening this important hearing, and leading this discussion on the dire need for affordable housing in our City, and across the U.S.

It is a fact that New York City is facing a rapidly depleting stock of affordable housing. Over the last few years the City has seen an unprecedented number of affordable units disappear, largely due to the real estate boom that took place and is still taking place.

Today's hearing on the proposed $1.3 billion purchase of Starrett City presents a clear example of how thousands of affordable housing units can disappear if we don't take the necessary precautions to protect them.

Currently, one out of every four low-income families in New York City spends over 50 percent of their income on rent, and the vacancy rate for affordable rental housing in the City is at its lowest in a decade. There are approximately 250,000 families in New York City waiting for Section 8 vouchers and public housing assistance, and that list keeps on growing.

Everyone should be entitled to a place they can call home. This is why I introduced legislation this Congress – *H.R. 44, the Stabilizing Affordable Housing for the Future Act* – that will not only help the situation in Starrett City, but will also provide relief for **all of our** communities here in New York, and across the nation.

It addresses the need for affordable housing in several ways. This bill creates vehicles to revitalize "distressed" HUD-owned properties, which helps to keep those buildings affordable, and provides support for units undergoing repairs.

It is also meant to give New York City and other governments facing the same affordable housing shortage, the tools they need to preserve these options. By making it easier for local governments to purchase HUD-owned buildings that are slated for foreclosure, we can help preserve affordable housing opportunities for low-income families in the City, and across the nation. This legislation was developed in conjunction with local housing organizations, and will help communities nationwide preserve their city's stock of affordable housing.

This is something that could help in the effort to save Starrett City. As the largest federally subsidized rental complex in the country with 5,800 units and 14,000 residents in 46 towers, the potential elimination of these units for low and moderate income residents is devastating.

We have an opportunity before us to make sure this community remains inclusive of the families that laid its foundation. The restaurant workers, hotel employees, and small business owners who work so hard everyday to keep these neighborhoods alive and vibrant, deserve to remain in their communities. But the bottom line here is that they can't do so without having an affordable place to call home.

I know the City Council is working on legislation called "The Save Starrett City Law" aimed at allowing tenants in Starret City and in other Mitchell-Lama buildings to remain here. While this is encouraging, Starrett City presents a smaller picture of a much bigger problem in New York City. The harsh reality is that New York City and other parts of our nation are becoming down right unaffordable for residents.

Preserving affordable housing is not about stopping development of new buildings or the growth of communities, but it is about helping working families in New York, and across the country, to secure a decent, safe place to live in.

I want to thank Chairwoman Water for her leadership and work on the Financial Services Committee's Subcommittee on Housing and for holding this hearing. The issue of affordable housing is important for residents here in New York City, and for the people throughout our nation, who depend on access to safe, affordable housing.

AFFORDABLE HOUSING PRESERVATION: LESSONS FROM STARRETT CITY
PUBLIC HEARING
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY
TESTIMONY OF BROOKLYN BOROUGH PRESIDENT MARTY MARKOWITZ
TUESDAY, JULY 10, 2007

GOOD MORNING CHAIRMAN MAXINE WATERS, RANKING MEMBER, MEMBERS OF THE SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY, AND MEMBERS OF CONGRESS.

MY NAME IS FREDERICK C. ARRIAGA — COUNSEL TO BROOKLYN BOROUGH PRESIDENT MARTY MARKOWITZ AND I AM HERE ON BEHALF OF BOROUGH PRESIDENT MARKOWITZ TO READ THE FOLLOWING TESTIMONY.

THANK YOU FOR HOLDING THIS HEARING AT STARRETT CITY WHICH AS WE KNOW IS THE EPICENTER OF THE FIGHT TO PRESERVE AFFORDABLE HOUSING IN NEW YORK CITY, AND AMERICA.

STARRETT CITY IS THE EPITOME OF SUCCESSFUL, MODERN, DIVERSE, AND AFFORDABLE URBAN LIVING ANYWHERE —AND MAKE NO MISTAKE — AS STARRETT CITY GOES, SO GOES AFFORDABLE HOUSING IN THIS NATION.

STARRETT CITY HAS OVER 14,000 TENANTS, 5,881 UNITS, 56 BUILDINGS ON 153 ACRES OF LAND. IN FACT, THE DEVELOPMENT IS SO LARGE THAT IT HAS ITS OWN SECURITY FORCE AND PUBLISHES A NEWSPAPER CALLED THE SPRING CREEK SUN.

AND YET STARRETT CITY'S IMMENSITY IS HUMANIZED BY ITS REMARKABLE SENSE OF COMMUNITY. EVERY DAY IN STARRETT CITY, THOUSANDS OF TENANTS OF DIFFERENT RACES, RELIGIONS, ETHNICITIES, NATIONAL ORIGINS AND INCOMES LIVE PEACEFULLY SIDE BY SIDE

STARRETT CITY IS AN EXAMPLE OF HOW PARTNERSHIPS—BETWEEN TENANTS AND GOVERNMENT AGENCIES—CAN BUILD, MAINTAIN AND PRESERVE QUALITY AFFORDABLE HOUSING.

AND BY THE WAY, THE STARRETT CITY TENANTS ASSOCIATION AND ITS PRESIDENT, MARIE PURNELL, ARE TO BE COMMENDED FOR THEIR TIRELESS EFFORTS TO PRESERVE AFFORDABLE HOUSING AND TO IMPROVE OUR QUALITY OF LIFE.

WE ARE HERE TODAY BECAUSE THE VERY EXISTENCE OF STARRETT CITY — AND OTHER AFFORDABLE HOUSING DEVELOPMENTS — IS THREATENED.

SEVEN MONTHS AGO WHEN STARRETT CITY WAS PUT UP FOR SALE, I JOINED A GROUP COMPRISED OF RESIDENTS, HOUSING ADVOCATES, AND ELECTED OFFICIALS AT EVERY LEVEL OF GOVERNMENT TO LEARN MORE ABOUT THE PROPOSED SALE AND WHAT ITS IMPACT WOULD BE ON RESIDENTS AND THE FUTURE OF THE DEVELOPMENT.

WE WERE DISMAYED THAT THE SALE WOULD BE CONDUCTED THROUGH A SECRET BIDDING PROCESS IN WHICH BIDDERS SIGNED CONFIDENTIALITY AGREEMENTS WITH THE SELLER. WITHOUT TRANSPARENCY, THERE WAS NO WAY TO COMMUNICATE TO THE PROSPECTIVE BIDDERS THE IMPORTANCE OF MAINTAINING STARRETT CITY AS AFFORDABLE HOUSING.

WE WERE SHOCKED WHEN WE LEARNED OF THE WINNING BID SINCE WE KNEW THAT THE FINAL BID OF 1.3 BILLION DOLLARS WOULD THREATEN THE LONG TERM AFFORDABILITY OF THE DEVELOPMENT.

FORTUNATELY THE FEDERAL AND STATE GOVERNMENTS AGREED WITH THAT CONCLUSION AND REJECTED THE PROPOSED SALE.

BY THE WAY, I COMMEND AND OFFER MY CONTINUED SUPPORT TO HUD SECRETARY ALPHONSE JACKSON AND NEW YORK STATE DIVISION OF HOUSING AND COMMUNITY RENEWAL COMMISSIONER DEBORAH VANAMERONGEN FOR THEIR DECISIVE ACTION TO REJECT THE PROPOSED SALE.

WHILE THE SUCCESSFUL BIDDER HAS MADE ASSURANCES THAT STARRETT CITY WILL REMAIN AFFORDABLE, I CANNOT HELP BUT JOIN RESIDENTS, WHO ARE CONCERNED ABOUT THE REALIZATION OF THOSE ASSURANCES IN THE FUTURE. WE ALL FEAR THAT STARRETT CITY WILL NOT BE AFFORDABLE FOR OUR CHILDREN OR OUR CHILDREN'S CHILDREN.

THE PROPOSED SALE OF STARRETT CITY HAS TAUGHT US THE FOLLOWING:

1. VOLUNTARY PLANS TO KEEP HOUSING AFFORDABLE DO NOT GUARANTEE AFFORDABILITY. WHEN THE HOMES OF PEOPLE WHO HAVE RESIDED IN THEM FOR 30 YEARS ARE AT STAKE, WE NEED LAWS THAT DETERMINE AFFORDABILITY, NOT JUST THE PROMISES OF DEVELOPERS.

2. GOVERNMENT AND REGULATORY AGENCIES MUST CONTINUE TO BE VIGILANT IN SCRUTINIZING PROPOSED SALES OF DEVELOPMENTS IN AFFORDABLE HOUSING PROGRAMS LIKE MITCHELL-LAMA, BOTH HERE IN NEW YORK STATE, AND IN THE PROJECT BASED SECTION 8 PROGRAM NATIONWIDE.

3. HUD, DHCR, AND OTHER STATE HOUSING AGENCIES MUST RETAIN OVERSIGHT AND REGULATORY JURISDICTION OVER AFFORDABLE HOUSING PROGRAMS. IN FACT THE SCOPE OF THAT JURISDICTION NEEDS TO BE EXPANDED AND STRENGTHENED SO THAT OWNERS COMPLY WITH AFFORDABLE HOUSING REGULATIONS. FURTHERMORE, FEDERAL AND STATE GOVERNMENT AGENCIES MUST BE GIVEN THE MANDATE AND MUST HAVE THE AUTHORITY TO GUARANTEE THAT OWNERS PROVIDE TENANTS WITH AFFORDABLE HOUSING THAT IS ALSO CLEAN, SAFE AND SECURE.

4. WE NEED LEGISLATION ON THE BOOKS TO PROTECT TENANTS IN BUILDINGS WHOSE OWNERS DO LEAVE MITCHELL-LAMA AND PROJECT-BASED SECTION 8 PROGRAMS. LONGSTANDING TENANTS SHOULD NOT BE SUBJECTED TO MARKET RATE RENTS IF THEIR DEVELOPMENTS OPT OUT OF AFFORDABLE HOUSING PROGRAMS.

5. WITH REGARD TO VOUCHERS: WHILE ENHANCED VOUCHERS ALLOW ELIGIBLE TENANTS TO PAY RENT INCREASES AFTER A DEVELOPMENT OPTS OUT OF A PROGRAM, VOUCHERS PRESENT THREE SIGNIFICANT DEFICIENCIES:

- VOUCHERS DON'T GUARANTEE THAT THE UNIT REMAINS AFFORDABLE FOR FUTURE TENANTS BECAUSE THE VOUCHER IS ISSUED TO THE CURRENT TENANT AND IS PORTABLE, AND

- EVEN TENANTS WHO ARE ELIGIBLE FOR ENHANCED VOUCHERS, MAY LOSE THEIR VOUCHER FOR FAILING TO CERTIFY—A COMPLICATED AND OFTEN HARROWING PROCESS. OTHER TENANTS MAY RUN THE RISK OF LOSING THEIR ELIGIBILITY BECAUSE OF THE DIZZYING VARIETY OF FACTORS THAT AFFECT THAT ELIGIBILITY.

  FOR EXAMPLE, MANHATTAN'S INDEPENDENCE PLAZA NORTH COMPLEX BOUGHT OUT OF THE MITCHELL LAMA PROGRAM AND ALTHOUGH MORE THAN HALF OF THE TENANTS EXPECTED SECTION 8 VOUCHERS TO PRESERVE THEIR HOUSING, MANY OF THE UNITS ARE MOVING TO MARKET RATES.

- AND THE THIRD DEFICIENCY REGARDING VOUCHERS IS THE FACT THAT THEY ARE SUBJECT TO FUNDING. WHAT HAPPENS IF FUNDS FOR ENHANCED VOUCHERS ARE REDUCED OR ELIMINATED? HOW WOULD TENANTS PAY THE INCREASES THAT WOULD RESULT FROM THEIR DEVELOPMENT LEAVING THE MITCHELL LAMA PROGRAM?

  UNTIL THESE ISSUES REGARDING ENHANCED VOUCHERS ARE ADDRESSED, TENANTS IN MITCHELL LAMA DEVELOPMENTS THAT FACE POTENTIAL BUY-OUTS ARE NOT FULLY PROTECTED.

6. AND FINALLY, THE PROPOSED SALE OF STARRETT CITY HAS TAUGHT US THAT OWNERS NEED INCENTIVES TO REMAIN IN PROGRAMS—LIKE MITCHELL LAMA—WHEN THE TIMETABLE TO OPT OUT COMES DUE. THE FINANCIAL WINDFALL THAT OPTING OUT PROVIDES MUST BE MATCHED WITH REASONABLE ALTERNATIVES.
   OWNERS ALSO NEED REFINANCING OPTIONS AS INCENTIVES TO REMAIN IN AFFORDABLE HOUSING PROGRAMS.

NEW YORK'S BOOMING REAL ESTATE MARKET HAS MADE AFFORDABLE HOUSING VERY APPEALING TO REAL ESTATE DEVELOPERS. MANY DEVELOPERS PLEDGE THAT THE BUILDINGS WILL REMAIN AFFORDABLE AFTER PURCHASE. BUT WE CANNOT RELY SOLELY ON THOSE PROMISES. THERE IS TOO MUCH AT STAKE.

IT IS OUR DUTY AS ELECTED OFFICIALS TO SERVE THE PUBLIC INTEREST — AND THAT MEANS NOT ONLY PRESERVING STARRETT CITY AND ALL AFFORDABLE HOUSING, BUT ADVOCATING FOR AND CREATING OPPORTUNITIES FOR NEW AFFORDABLE HOUSING TO BE BUILT.

STARRETT CITY IS THE PRIDE OF BROOKLYN.

AND IF ANY OF US HAS ANYTHING TO SAY ABOUT IT — IT WILL REMAIN A BEACON OF DIVERSITY AND COMMUNITY FAR INTO THE FUTURE.

TODAY WE SAY LOUD AND CLEAR — WE WILL STAND TOGETHER WITH TENANTS IN THIS FIGHT ALL THE WAY.

AND I APPLAUD THE CONGRESS MEMBERS' EFFORTS TO PRESERVE AFFORDABLE HOUSING.

THANK YOU.

Testimony of Rafael Cestero
Senior Vice President for Field Operations and Program Support
Enterprise Community Partners, Inc.

Before the House Housing and Community Opportunity Subcommittee
Field Hearing on Affordable Housing Preservation: Lessons from Starrett City
Brooklyn, New York
July 10, 2007

Thank you Chairwoman Waters and distinguished members of the Financial Services Housing and Community Development subcommittee. My name is Rafael Cestero and I am senior vice president for Enterprise Community Partners. I appreciate the opportunity to share with you Enterprise's extensive on-the-ground preservation activities as well as to outline our federal policy recommendations.

Enterprise is a leading provider of development capital and expertise needed to create decent, affordable homes and rebuild communities. For a quarter of a century, Enterprise has pioneered neighborhood solutions through private-public partnerships with community organizations, financial institutions, local governments and others who share our vision. Enterprise has raised and invested $8 billion in equity, grants and loans to support the creation of 215,000 affordable homes, and is currently investing in communities at a rate of $1 billion a year.

National Need for Preserving Affordable Housing
During the past decade, approximately 170,000 public housing units were lost to neglect and deterioration. Much of the remaining public housing stock has substantial renovation and rehabilitation needs. Without an infusion of new resources and policy changes, the remaining 1.2 million public housing units - nearly half of which are home to the elderly or seriously disabled - will continue to decline.

At the same time, 1.4 million units of privately owned, federally subsidized housing faces preservation challenges. Roughly 300,000 units were lost during the last 10 years, representing close to 15 percent of the national affordable housing stock. This loss can primarily be attributed to building owners choosing not to renew subsidized contracts. [1] Outside forces affecting these decisions include gentrifying markets, continued uncertainty over tenant and project based Section 8 appropriations, and tax depreciation recapture issues faced by investors.

Through practical experience, we know that it costs less to preserve affordable housing units than to replace them. Enterprise estimates that the tax credit equity needed to rehabilitate an apartment is $39,500, while the estimated tax credit equity needed to newly construct an apartment is $65,500, a 66 percent cost premium.

[1] Center on Budget and Policy Priorities, "The Effects Of The Federal Budget Squeeze On Low-Income Housing Assistance," February 2007

Strategies for Preservation

Enterprise is committed to preserving affordable housing nationwide. In 2006, Enterprise refinanced over 30 properties that had HUD financing or subsidies. Proceeds from refinancing allow additional capital investment, increased support services, and create more affordable housing units. Additionally, the recapitalization will ensure their affordability for another 20 to 30 years. To ensure preservation Enterprise brought to bear our expertise and resources by providing predevelopment loans, financial structuring capabilities, tax credit equity and credit enhancements.

State and Local Efforts

As we have seen through the efforts to preserve affordability at Starrett City, preservation requires involvement at local, state, and federal governmental levels. States are making strides toward addressing preservation issues. State and local finance agencies employ a variety of strategies to preserve affordable housing including using private activity bonds and 4% credits, allocating state housing trust fund money, and providing predevelopment and bridge loans. Six years ago, only six states set aside 9 percent Low Income Housing Tax Credits for affordable housing preservation. Today 46 states have set aside credits in their qualified allocation plans dedicated to preserving affordable homes.[2] NYS and NYC allocate significant amounts of the 9 percent allocation and tax-exempt bond volume cap for preservation of housing. Over the last several years, this has led to the preservation of 40,000 units in NYC. When working with these state programs, Enterprise brings to the table a range of financing tools and approaches as well as unique understanding of nonprofit and for profit developer motivations and market knowledge and relationships.

Preservation Funds

To ensure that community organizations have access to much needed capital to acquire and preserve housing affordability, Enterprise has launched acquisition funds in New York City and the District of Columbia and we hope to close funds in Los Angeles and Atlanta. In DC, Enterprise created the DC Preservation Fund. The DC Preservation Fund is an acquisition loan product for preserving multifamily housing. Enterprise raised $20 million of private capital which has been matched by $8 million of public dollars from the District government to create a $28 million preservation fund. This new fund provides acquisition and predevelopment financing for nonprofit sponsors in the Washington, D.C. metropolitan area to acquire existing affordable multifamily properties threatened with conversion to for-sale housing or higher-rent use. To date, the fund has preserved over 600 affordable units in D.C. and the surrounding suburban communities.

NYC Billion Dollar Promise and Acquisition Fund

The affordable housing challenge has never been more severe in New York City than it is today. Mayor Michael Bloomberg's ground breaking New Housing Marketplace Plan to create and preserve 165,000 affordable housing units is the largest municipal housing effort in country. This Herculean effort is only part of the solution. With unsubsidized rents rising and affordability restrictions in programs like Mitchell-Lama ending, the housing stock is quickly trending up-market to rates only the wealthiest can afford.

[2] National Housing Trust State and Local Housing Initiatives Working Paper, June 2007. www.nhtinc.org

Developments such as Starrett City with its close to 6,000 apartments must be preserved as affordable housing. In 2004, Enterprise New York pledged to invest $1 Billion in 15,000 affordable homes by 2008 in support of Mayor Bloomberg's efforts. We are now more than halfway there, with $610 million invested in grants, equity, and loans to create or preserve almost 7,000 homes for low-income New Yorkers.

As part of our billion-dollar promise, Enterprise and our partners created the NYC Acquisition Loan Fund. The goal of the New York City Acquisition Loan Fund is to create and preserve more than 30,000 units of affordable housing in 10 years. The Fund is a partnership among the public, private and non-profit sectors. It offers a new way for community-based developers to secure development capital to create a pipeline of affordable housing sites. Through the fund, loans are available to non-profit and for-profit developers for acquisition and pre-development costs only.

Just two weeks ago, Enterprise and the New York City Department of Housing Preservation and Development announced the acquisition and preservation of 283 low- and moderate-income apartments in the northwest Bronx. This sale is the first preservation agreement through the Acquisition Fund.

I'd like to share with you the story of the Rodriguez family who are current residents of this preservation project. Like many New Yorkers, Marisol was struggling to provide a safe and adequate home for her children in today's challenging New York City housing market. Working at a day-care center during the day, she seldom saw her husband, Wilmer, who holds the nightshift as a doorman in Manhattan. Marisol and Wilmer were barely making ends meet to afford a substandard apartment, and Marisol knew she could not continue raising her children in a neighborhood where she constantly worried about their safety.

Marisol and Wilmer decided to move to a building in the Kings Bridge Heights area of the northwest Bronx hoping to find a safer, more affordable apartment. Although the owners of the building wanted to sell their portfolio of properties, they were committed to keeping the rents affordable for those like the Rodriguez family. With the help of Enterprise and the New York City Acquisition Fund, the Fordham Bedford Housing Corporation (FBHC), a non-profit provider of affordable housing in the Bronx, was able to acquire Marisol's building along with five others. This $23 million loan to the FBHC will help to ensure future affordability in a borough where fifty percent of residents pay half their income on rent.

For the Rodriguez family, being able to keep their home in Kings Bridge Heights has made all the difference. For Marisol, it is the safest neighborhood she has ever lived in, and she feels confident about letting her children out to play. Marisol knows that it's hard to get ahead in New York City living on a low income. However, with the combined efforts of the City, the Acquisition Fund, and Enterprise, the Rodriguez is among 283 families that will keep their safe, well-maintained homes well into the future.

Starrett City
Preserving Starrett City as an affordable housing resource for New York City low and moderate-income families is and should be one of the highest priorities for all levels of government. Unfortunately, this has not been a priority for the current owner. Enterprise, in partnership with ACORN, has looked very carefully at the Clipper Equities bid for Starrett. It is very clear that without dramatic new subsidies from the federal, state and local governments that this proposal will lead to the loss of these units as affordable housing.

I say this for the following reasons:

- Clipper Equities has proposed to acquire Starrett City for $1.3 million and opt-out of the existing regulatory regime.
- Clipper's proposal is dependent upon receipt of an additional $30 million in annual government rent subsidies, retention of current real estate tax abatements at an estimated cost government of $17 million and an assumption of significant operating cost savings.
- Both of the financial conditions requested by Clipper require significant waivers of programs and policies which may not be statutorily possible.
- Without these deep government subsidies, the Clipper's transaction is financially infeasible and the $1.3 billion acquisition price cannot be supported.

	Clipper Proposal	**Clipper Proposal, at Full Taxes without Waivers and Based on Actual Operating Costs**
Effective Apartment Revenue	$125 million	$97.4 million
Commercial/Other Revenue	$9.2 million	$9.2 million
Effective Gross Income	$134.2 million	$106.6 million
Operating Expenses	($65 million)	($80 million)
Real Estate Taxes	($3.1 million)	($20 million)
Reserve Requirements	($0 million)	($3.3 million)
Net Operating Income	$65.9 million	$1.5 million
Proposed Debt Service	($59.9 million)	($59.9 million)
Net Cash Flow	$5.9 million	($58.4 million)

National Policy Recommendations
Preserving affordable housing at the necessary scale will require commitment at the highest levels of federal, state and local government. I commend and thank the New York City Congressional delegation as well as Senators Schumer and Clinton for their powerful advocacy on behalf of affordable preservation. I would especially like to thank Congresswoman Velasquez for introducing the Stabilizing Affordable Housing for the Future Act which would provide valuable tools and resources, facilitating affordable housing preservation.

I would like to make the following policy recommendations as low-cost strategies that will provide much-needed flexibility and expand the available resources to preserve affordable housing for our nation's most vulnerable:

Enact Exit Tax Legislation
Historically, the federal government has invested in creating affordable rental housing for millions of lower income individuals and families. Changes to the tax code have made owners of affordable housing properties reluctant to transfer their property to new owners because depreciation recapture taxes due at sale often exceed a reasonable sales price. Instead, owners often choose to hold the properties until death, at which point no taxes will be collected on the depreciated gain. As a result, lower valued affordable housing properties are often left to deteriorate while higher valued properties are sold and converted to market rate housing. Either scenario risks federally assisted affordable housing stock.

I urge congress to enact the Affordable Housing Preservation Tax Relief Act of 2007 (H.R. 1491/S. 1318), which would facilitate the transfer of federally assisted housing so that rental housing can be preserved as affordable. This bill would waive the seller's depreciation recapture tax liabilities if the purchaser agrees to keep the housing affordable for 30 years after the property transfer. This policy change would have enormous positive impact on preserving affordable rental housing for low-income people.

Create an Early Warning System
With minimal investment, HUD could create an Early Warning System to help preserve properties if owners prepay mortgages, opt out of HUD subsidy programs or encounter other circumstances which may lead to loss of the property's affordability restrictions. As part of this Early Warning System, HUD should be required to post Real Estate Assessment Center (REAC) scores, Section 8 Opt Out or Renewal Notices and Wellstone prepayment Notices. Providing this information as soon as possible to tenants, community developers and state and local governments will allow localities to develop solutions before the ability to preserve the property is lost. While there is no guarantee that an Early Warning System would have voided the situation with Starrett City, creating such a system would provide the information necessary to safeguard buildings that would otherwise cease to contain affordable housing stock.

Strengthen Cities' Right of First Refusal
Local governments must be able to exercise their statutory right of first refusal to purchase HUD-owned buildings. Previously, sales price for buildings sold by HUD to local government housing agencies were based on a number of industry standards including estimated repair and rehabilitation needs. However, recently HUD issued guidance stating that it will no longer consider repair or rehabilitation costs in determining an appropriate sales price. These policies directly raise preservation costs as purchasers must effectively pay twice for the repair costs. Such policies make it nearly impossible for government housing agencies and/or subsequent preservation developer to preserve the properties.

I strongly encourage Congress to enact Section 5 of the Stabilizing Affordable Housing for the Future Act (H.R.44), which provides that HUD must use industry standard appraisal practices, including consideration of repairs costs and maintenance of affordability, in determining the market value of all multifamily real property and multifamily loans.

Strengthen Protections for Troubled Properties
I also recommend that Congress amend existing law to grant HUD's non-judicial foreclosure authority to local governments designated by HUD as part of the note and mortgage sale process. These local governments will then be able to more efficiently handle physically or financially distressed buildings and manage them in a manner that will benefit those originally intended to be assisted under the prior housing program. I suggest that Congress require HUD to maintain rental assistance to buildings that are undergoing rehabilitation as part of a preservation transfer, while escrowing these funds until the building or units meet Housing Quality Standards, at which time the escrowed funds would be made available to the property.

Enact a Federal First Right of Purchase
For most federally assisted housing properties facing owners who want to prepay their mortgages, federal law establishes no protections for the property when the owner seeks to convert the property to market rate use. Generally tenants receive enhanced or other vouchers, but the physical housing units are then lost to the community, despite years of federal investment. I urge Congress to require owners proposing to end participation in federal HUD and Rural Development housing programs to offer the properties for sale at fair market value to preservation purchasers.

Again, I would like to thank the committee for holding this important hearing and for their commitment to preserving affordable housing. The federal government plays an invaluable role preserving affordable housing and creating effective preservation policies. Enterprise stands committed to working with Congress to create policies that will preserve and redevelop homes and in turn create healthy and sustainable communities.

TESTIMONY OF COMMISSIONER SHAUN DONOVAN, NEW YORK CITY DEPARTMENT OF HOUSING PRESERVATION AND DEVELOPMENT BEFORE THE U.S. HOUSE OF REPRESENTATIVES HOUSING SUBCOMMITTEE JULY 10, 2007

GOOD MORNING, CHAIRWOMAN WATERS AND CONGRESSMAN TOWNS. I AM SHAUN DONOVAN, COMMISSIONER OF THE NEW YORK CITY DEPARTMENT OF HOUSING PRESERVATION AND DEVELOPMENT (HPD). I APPRECIATE THE OPPORTUNITY TO TESTIFY HERE TODAY ABOUT AFFORDABLE HOUSING PRESERVATION AND STARRETT CITY IN PARTICULAR.

HPD'S MISSION IS TO PROMOTE QUALITY HOUSING AND VIABLE NEIGHBORHOODS FOR NEW YORKERS. AS THE NATION'S LARGEST MUNICIPAL HOUSING DEVELOPMENT AGENCY, WE PARTNER WITH PRIVATE, PUBLIC AND COMMUNITY STAKEHOLDERS TO STRENGTHEN THE NEIGHBORHOODS OF OUR CITY. THE CRISIS OF ABANDONMENT THAT PLAGUED MANY NEW YORK COMMUNITIES IN THE 1970'S AND '80'S WAS SOLVED BY REBUILDING NEIGHBORHOODS, DRIVING DOWN CRIME AND IMPROVING SCHOOLS. HUNDREDS OF THOUSANDS OF PEOPLE HAVE MOVED TO NEW YORK TO SHARE IN OUR SUCCESS AND WE ARE PREDICTING THAT NEW YORK CITY'S POPULATION WILL GROW BY CLOSE TO A MILLION BY THE YEAR 2030. THAT POPULATION GROWTH WILL ADD TO OUR CURRENT CHALLENGE OF HOUSING AFFORDABILITY.

ON EARTH DAY, MAYOR BLOOMBERG UNVEILED PLANYC 2030, WHICH INCLUDES A COMMITMENT TO CREATE ENOUGH AFFORDABLE AND ENVIRONMENTALLY SUSTAINABLE HOUSING FOR OUR GROWING POPULATION. THAT PLEDGE BUILDS ON THE COMMITMENT MADE IN MAYOR BLOOMBERG'S NEW HOUSING MARKETPLACE PLAN TO FUND THE CONSTRUCTION AND REHABILITATION OF 165,000 AFFORDABLE APARTMENTS AND HOMES BY 2013. WE HAVE ALREADY REACHED 38 PERCENT OF OUR GOAL -- 63,000 NEW OR PRESERVED UNITS OF AFFORDABLE HOUSING WILL HAVE STARTED CONSTRUCTION BY THE END OF FISCAL YEAR 2007.

KEEPING STARRETT CITY AFFORDABLE IS A PRIORITY FOR THE CITY OF NEW YORK. STARRETT CITY IS ONE OF THE MOST HEAVILY REGULATED PROPERTIES IN THE COUNTRY, AND THERE ARE MANY LESSONS TO BE LEARNED HERE. OPENED IN 1974, OVER 90 PERCENT OF THE TENANTS LIVING IN STARETT GET DIRECT FEDERAL RENT SUBSIDIES OR OTHER TYPES OF ASSISTANCE FROM THE CITY AND STATE. OF THE 5,881 UNITS, 2,442 ARE COVERED BY A RENTAL ASSISTANCE PAYMENT CONTRACT FROM HUD, 1,091 UNITS ARE PROJECT-BASED SECTION 8, 626 UNITS ARE UNDER THE MITCHELL-LAMA PROGRAM, AND 1,611 UNITS ARE SECTION 236. STARRETT CITY WAS BUILT AS PART OF THE NEW YORK STATE MITCHELL-LAMA PROGRAM, CREATED IN THE 1950S TO BUILD AFFORDABLE HOUSING FOR THE MIDDLE CLASS. UNDER THE MICHELL-

LAMA PROGRAM, THE CITY PROVIDED MORTGAGES AT FAVORABLE INTEREST RATES AND DEEP PROPERTY TAX EXEMPTIONS IN EXCHANGE FOR A COMMITMENT FROM THE OWNERS TO REMAIN IN THE MITCHELL-LAMA PROGRAM FOR 20 YEARS. NEARLY THREE-QUARTERS OF THE UNITS AT STARRETT CITY ALSO RECEIVE A J-51 TAX EXEMPTION FROM THE CITY, WHICH MAKES THEM SUBJECT TO RENT STABILIZATION AT BUY-OUT.

GIVEN ALL THE PUBLIC INVESTMENT IN STARRETT CITY, THE NUMBER OF UNITS INVOLVED, AND THE STRONG DESIRE ON THE PART OF CURRENT RESIDENTS TO REMAIN HERE, IT IS EASY TO SEE WHY SO MANY PUBLIC OFFICIALS SUPPORT KEEPING STARRETT CITY AFFORDABLE. BEFORE I DISCUSS SOME OF THE FEDERAL POLICY CHANGES THAT I BELIEVE WOULD HELP PRESERVE STARRETT AND OTHER ASSISTED-PROPERTIES, I WOULD LIKE TO ADDRESS THE STATUS OF THE PROPOSED SALE OF STARRETT CITY TO CLIPPER EQUITIES. WHILE HPD DOES NOT HAVE THE SAME RIGHT OF APPROVAL FOR A POTENTIAL SALE AT STARRETT AS OUR STATE AND FEDERAL COLLEAGUES, WE ARE WORKING CLOSELY WITH OUR GOVERNMENTAL PARTNERS TO EVALUATE THE POTENTIAL SALE.

WE ARE VERY CONCERNED THAT THERE IS NO VIABLE WAY FOR STARRETT CITY TO REMAIN AFFORDABLE AND WELL MAINTAINED AT THE PROPOSED SALE PRICE OF $1.3 BILLION. THIS VIEW IS REINFORCED BY CLIPPER'S OWN PLAN FOR THE PROPERTY – THEY ARE ASKING TO

RAISE THE RENT TO MARKET RATE LEVELS, DESPITE THE FACT THAT THE LARGE MAJORITY OF THE UNITS ARE COVERED BY THE J-51 PROGRAM, WHICH REQUIRES THEM TO REMAIN AT AFFORDABLE MITCHELL-LAMA RENTS OR IN RENT STABILIZATION. AT THE SAME TIME, THEY ARE ASKING FOR A CONTINUATION OF THE TAX ABATEMENT. THERE HAS ALSO BEEN SOME SPECULATION THAT THE PROPERTY IS WORTH $1.3 BILLION BECAUSE OF THE POTENTIAL LAND THAT CAN BE DEVELOPED FOR NEW RESIDENTIAL UNITS. HOWEVER, HPD'S RECENT EXPERIENCE HAS SHOWN THAT BUILDING IN THIS AREA IS VERY COSTLY, WHICH THE BUYER'S PROPOSAL DOES NOT SEEM TO TAKE INTO CONSIDERATION. IN SHORT, THE ONLY WAY FOR THIS PROPOSAL TO WORK IS FOR THE PROPOSED BUYER TO OBTAIN RENTS THAT ARE MARKET RATE, AND TO OBTAIN A MASSIVE INFUSION OF SUBSIDIES FROM THE FEDERAL, STATE AND LOCAL LEVEL. THIS WILL NOT OCCUR. FURTHERMORE, WE HAVE A NUMBER OF CONCERNS WITH CLIPPER EQUITIES ITSELF, WHICH HAS A LARGE NUMBER OF SERIOUS CODE VIOLATIONS ON BUILDINGS IT OWNS. THE CLIPPER EQUITIES PROPOSAL IS A MISTAKE FOR AFFORDABLE HOUSING, AND A MISTAKE FOR TAXPAYERS.

WE WERE PLEASED WITH HUD SECRETARY JACKSON'S DECISION IN EARLY MARCH TO DENY CLIPPER EQUITIES THE RIGHT TO BUY THE DEVELOPMENT AND THE SIMILAR DETERMINATION BY THE NEW YORK STATE DIVISION OF HOUSING AND COMMUNITY RENEWAL

COMMISSIONER VAN AMERONGEN. IN MANY NISTANCES, HUD HAS BEEN A KEY PARTNER IN NEW YORK CITY'S PRESERVATION EFFORTS, AND WE BELIEVE THERE ARE MANY MORE OPPORTUNITIES FOR COOPERATION, ESPECIALLY IF CONGRESS WERE TO PASS AFFORDABLE HOUSING PRESERVATION LEGISLATION. AS I MENTIONED, OVER 2,400 UNITS IN STARRETT RECEIVE RENTAL ASSISTANCE PAYMENTS (RAP) WHICH PAY THE DIFFERENCE BETWEEN WHAT A LOW- OR MODERATE-INCOME TENANT CAN AFFORD TO PAY, AND THE ACTUAL FAIR MARKET RENT. RAP, ALONG WITH ITS COUNTERPART PROGRAM, RENT SUPPLEMENT ("RENT SUPP"), IS A DECADES OLD AND ANTIQUATED PROGRAM. THERE ARE MORE THAN 35,000 RAP AND RENT SUPP UNITS NATIONWIDE, ACROSS 34 STATES. UNLIKE THE NEWER PROJECT-BASED SECTION 8 PROGRAM THAT REPLACED THEM, RAP AND RENT SUPP CONTRACTS CAN BE TERMINATED AT ANY TIME AND ARE NOT RENEWABLE. THAT MEANS THAT SHOULD A NEW OWNER AT STARRETT CHOOSE TO PRE-PAY THE MORTGAGE THE RAP SUBSIDIES WOULD DISAPPEAR. AND, NEW OWNER OR NOT, THE RAP CONTRACT ENDS AT STARRETT IN 2016, ALONG WITH THE GUARANTEE OF AFFORDABLE HOUSING FOR 2,400 FAMILIES.

A SOLUTION WOULD BE LEGISLATION THAT WOULD ALLOW OWNERS WITH RAP OR RENT SUPP CONTRACTS TO CONVERT TO PROJECT-BASED SECTION 8. THERE ARE BENEFITS TO BOTH OWNERS AND TENANTS. OWNERS GET THE OPTION OF GETTING FAIRER RENTS FROM HUD, AT NO COST TO THE TENANTS, AND THE OPTION TO RENEW THE CONTRACT; A

VERY APPEALING OPTION IN MID-LEVEL MARKETS. TENANTS GET BETTER PROTECTION BECAUSE THERE ARE GREATER INCENTIVES FOR AN OWNER TO CONTINUE IN THE FEDERAL PROGRAM, AND SHOULD THE OWNER CHOOSE TO LEAVE THE PROGRAM, THE TENANTS ARE GUARANTEED A HOUSING VOUCHER THAT ALLOWS THEM TO STAY IN THEIR HOME. CONVERTING THE RAP CONTRACT AT STARRETT TO A PROJECT-BASED SECTION 8 CONTRACT IS, IN MY VIEW, THE MOST EFFECTIVE WAY TO SAVE STARRETT CITY.

WHILE "OPT-OUTS" POSE A MAJOR THREAT TO THE FEDERAL STOCK OF AFFORDABLE HOUSING, THERE IS ALSO THE PROBLEM OF HUD-INSURED DISTRESSED HOUSING IN DANGER OF FORECLOSURE. WHILE IN THE PAST UNITS OF LOCAL GOVERNMENT WERE ABLE TO EXERCISE THEIR STATUTORY RIGHT OF FIRST REFUSAL TO PURCHASE THESE PROPERTIES FROM HUD AND MAINTAIN THEM AS AFFORDABLE HOUSING, CHANGES IN HUD'S PROPERTY VALUATION METHOD HAVE EFFECTIVELY SUSPENDED THE PROGRAM. HUD IS INTERPRETING LANGUAGE IN THE DEFICIT REDUCTION ACT OF 2005 AS REQUIRING THEM TO DISREGARD THE REPAIR NEEDS OF A PROPERTY WHEN VALUING IT FOR A RIGHT OF FIRST REFUSAL. THIS CHANGE HAS MEANT THAT HUD IS ASKING ABOVE MARKET PRICE FOR PROPERTIES. AS A RESULT, NO PROPERTIES HAVE BEEN SOLD AT A RIGHT OF FIRST REFUSAL SINCE PASSAGE OF THE DRA. LEGISLATION, AS CONTAINED IN H.R. 44 AND H.R. 1852, IS NEEDED TO

REQUIRE HUD TO FAIRLY VALUE PROPERTIES WHEN SELLING TO UNITS OF LOCAL GOVERNMENT. IN NEW YORK CITY ALONE, WE BELIEVE WE COULD PRESERVE THOUSANDS OF UNITS OF AFFORDABLE HOUSING IF THE RIGHT OF FIRST REFUSAL WERE REINSTATED.

LASTLY, WE HOPE YOU WILL INCLUDE IN ANY PRESERVATION LEGISLATION AMENDMENTS TO THE MULTIFAMILY MORTGAGE FORECLOSURE ACT. THAT LEGISLATION GAVE HUD A RANGE OF TOOLS TO PERFORM NON-JUDICIAL FORECLOSURES AND WE ARE ASKING THAT UNITS OF LOCAL GOVERNMENT BE AFFORDED THE SAME FLEXIBILITY. THIS IS ESPECIALLY IMPORTANT AS A COMPANION TO REINSTATING THE RIGHT OF FIRST REFUSAL, BECAUSE UNITS OF LOCAL GOVERNMENTS WOULD BECOME RESPONSIBLE FOR PROPERTY DISPOSITION.

IN CLOSING, I'D LIKE TO THANK YOU FOR THE OPPORTUNITY TO TESTIFY, AND FOR PRIORITIZING AFFORDABLE HOUSING PRESERVATION. THE SUBCOMMITTEE'S LEADERSHIP HAS BEEN CRUCIAL TO THE SUCCESS WE'VE HAD DEVELOPING AND PRESERVING AFFORDABLE HOUSING IN NEW YORK CITY, AND ACROSS THE NATION.

STATEMENT OF BRIAN D. MONTGOMERY

Assistant Secretary for Housing – Federal Housing Commissioner
U.S. Department of Housing and Urban Development

Hearing before the Committee on Financial Services

United States House of Representatives

"Affordable Housing Preservation: Lessons from Starrett City"

July 10, 2007

Chairwoman Waters, Chairman Towns, Ranking Member Shays, distinguished members of the New York congressional delegation, on behalf of Secretary Jackson, thank you for inviting the Department to testify on *Affordable Housing Preservation: Lessons from Starrett City.* We appreciate this opportunity to provide the Committee with the Department's position on Starrett City as well as our commitment to the preservation of affordable housing across the nation.

Starrett City has been a model housing effort. The development has allowed low-income families to find affordable housing in the city, to remain part of the city, to feel a sense of community and to grow with the community. It is for these and other reasons, our Administration and the Department remain committed to preserving this affordable housing.

With 14,000 residents, Starrett City is the largest federally-subsidized development in the country and is an essential affordable housing resource for the City of New York. We believe the proposed transaction threatens New York City's affordable housing market and those most in need of the housing. The Department recognizes that this sale is expensive to the developers and rents will have to be increased to cover the debt service. As a result, the sale could quickly displace most, if not all, who will have few housing options left in this tight market.

As you are aware, the Department rejected the initial request from Clipper Equity due to the lack of information needed to make an informed decision as to their capacity and experience to operate a development of this size.

The Department recently reviewed a revised proposal. Yesterday, the Department rejected this proposal as well. The Department continues to have serious concerns regarding Clipper Equity's organizational and financial capacity as well as their ability to sustain the development as affordable housing for the long term. The Secretary also met with over 100 residents of Starrett City in Washington a few months ago to listen to their concerns. From day one, the Secretary has made it clear that HUD's number one priority is preserving Starrett City as affordable housing. This remains our goal, and we will not waiver from it.

The need for preservation of our existing affordable housing stock cannot be overstated. In addition to the aging of the physical structures, preservation is challenged by:

- Escalating market rents in some areas;
- Rapid increases in operating expenses; and
- Regional demographic shifts include the aging population and people with disabilities.

We are pleased with the successes of HUD's programs that help preserve the affordable housing stock. To date, the Department has preserved the affordability of over 250,000 units nationwide.

But to assist HUD in doing more, our industry partners and elected officials from around the country have put forth legislation intended to address affordable housing preservation. While the Administration is still reviewing the legislation – H.R. 647, introduced by Congresswomen Waters and Pryce, and S. 131, introduced by Senators Allard and Reed – the reauthorization of the Mark-to-Market program is important. This program has preserved over 125,000 units to date. With a five-year reauthorization, we can expect to preserve an approximately 50,000 additional units.

In May of this year, the Department sponsored a national affordable rental housing symposium entitled, "Preservation: Now and in the Future." We covered many topics and had a very productive dialogue with preservation experts and housing advocates. Some key issues discussed were the Section 202 refinancing rules and the need for clarification to have it be more effective tool; the one-for-one unit replacement policy and when it should be required; the need for resources (private, local, state and federal) to work together to preserve projects and mortgages maturing with no long term affordability or tenant protections.

The Department is pleased to report that a revised Section 202 refinancing notice is in its final stage of completion. The Department is also working on policy regarding the conversion of units (efficiencies to one-bedrooms) and the applicability of one-for-one replacement units when redeveloping and preserving a project. Both of these notices should be published within the next 90 days. It was also collectively concluded that we need to establish incentives for owners to maintain the housing as affordable for the long term, after mortgages mature or rental assistance contracts expire.

The Administration and Department are deeply committed to units financed using the Section 202 Supportive Housing for the Elderly Program. One initiative used to help in the preservation of these projects is the Emergency Capital Repair Program. Although legislation authorizing the capital repair program was approved under the American Homeownership and Economic Opportunity Act of 2000, funds were not appropriated to carry out the capital repair component of the legislation until FY 2004.

Many elderly projects are 30 years old or older and need a financial infusion of funding to correct situations that present an immediate threat to the life, health and safety of elderly tenants. These grants are given on a one-time basis, for emergency items that could not be absorbed in the project's operating budget. To date, the Department has awarded over $30 million in grant funds for 139 elderly multifamily housing projects benefiting thousands of America's seniors.

Lastly, the Department is also committed to increasing the supply of new affordable housing in this country. The majority of affordable housing projects built today are financed, in part, with Low-Income Housing Tax Credits. The Department has begun an initiative to identify and address ways in which HUD's financing programs – FHA and Section 202 (elderly housing) and 811 (housing for disabled persons) – can work more effectively and efficiently with the Tax Credit Program. We are streamlining

our subsidy layering procedures and processing procedures in order to improve the timing of HUD approvals to meet Tax Credit program deadlines.

We are committed to working with the Department of the Treasury to achieve better coordination between the two agencies in administering these very successful affordable housing programs.

I would like to reiterate the Administration's and Department's commitment to the development and preservation of affordable housing. I enjoy visiting such vibrant communities as found here in Starrett City. Preserving these kinds of communities is one of our top priorities at HUD. That concludes my testimony. I would happy to respond to questions that you may have at this time.

Testimony of Shirley Pazant, ACORN Member
Presented to the
Financial Services Subcommittee on Housing and Community Opportunity
U.S. House of Representatives
Starrett City, New York
July 10, 2007

Chairwoman Waters, Ranking Member Biggert, Congressman Towns, and Members of the Committee, thank you for the opportunity to testify today about the affordable housing situation in Starrett City.

My name is Shirley Pazant, and I am a retired nurse. I have lived in Starrett for 8 years, and I am a very active member of the Association of Community Organizations for Reform Now (ACORN) here in Starrett City and a member of the STA.

I had attempted to move into Starrett for ten years. When I finally got the call that I was able to move in, I was very happy. As a widow on a fixed income I feel safe and secure here. I know that if I were to have to leave, there would be nothing out there that would as beautiful as Starrett City and nothing that would work for my income level.

My grandchildren look forward to coming to visit from Bed-Stuy, because of the safe places available for them to run around and be children. That is really hard to come by in their neighborhood.

Starrett City is truly my home. The neighbors come together as one big happy family, regardless of race or culture. We have built a home here that could not be duplicated in any other place.

The community is a wonderful place not only for those of us who have retired here but for every person at any stage of their lives. The affordability has allowed parents to save for their children to go to college. Affordable rents and a welcoming diverse community benefit everyone who has the pleasure of calling Starrett City their home.

My testimony today will focus on the community's concerns with Clipper Equity as a potential owner of Starrett, especially with regard to affordability, as well as our recommendations to local, state, and federal entities. Whether it be Clipper or another owner, many of our concerns are instructive as we look forward to what will happen next.

Affordability in Starrett City

The cornerstone of all of this is affordability. Ninety percent of the tenants here rely not only on low rent but on the variety of rental assistance programs that have been available all these years. I am currently enrolled in the Section 8 program, as are other residents – many of who are seniors. As seniors, we are very troubled by the idea that someone could come in here and displace our community by pricing us out.

The research that ACORN and ACORN Housing staff have conducted show that in order for Clipper Equity to keep Starrett affordable, they would have to receive huge additional government subsidies, reduce services, and raise rents. That is not a solution at all as far as we, the tenants, are concerned.

Clipper Equity has proposed to acquire Starrett City for $1.3 billion and opt-out of the existing regulations. Clipper Equity's bid is dependent upon receiving an additional $30 million yearly in government subsidies, retaining the current real estate tax abatements at an estimated government cost of $17 million, and assuming significant cost savings in operating expenses. Additionally, Clipper's proposal would require significant waivers from programs and policies, which may not even be possible.

When it was announced that Clipper Equity would be buying Starrett, we decided to gather research on Clipper's other complex in Brooklyn – Flatbush Gardens (better known as Vanderveer). We looked at building department records for any violations, and we knocked on doors. As we talked to tenants, we documented their complaints about the lack of heat and hot water, holes in the ceilings, and unsanitary living conditions. In the process of our work, we discovered that Flatbush Gardens has almost 8,106 building code violations with over 1,400 new violations logged in since Clipper took over the property. (I have copies of the powerpoint presentation about what we found in English, Spanish and Russian if you would like them.)

Starrett City is special not only because it is affordable, safe, and diverse, but because the grounds and buildings are beautiful and well maintained. If something goes wrong in our apartments, it gets fixed right away. That is clearly not the case at Clipper's other properties.

We know that there are economically viable and lucrative solutions to keeping Starrett City affordable that will not over burden the government and more importantly, will allow tenants to keep their homes, continue to receive key maintenance services, and maintain the economic diversity of Starrett City into the future. ACORN and the Starrett City Tenants Association stand united in our fight to make sure that Starrett City remains affordable and special for future generations.

Policy Recommendations

Over the years, government has stepped in to create the patchwork of subsidies that have allowed this development to evolve into a place with such economic and racial diversity. Now, we need local, state, and federal legislation to protect tenants like us all around the country. We need you to protect not only my generation of tenants, but also future residents, from developers looking only to make a profit off of the community.

Specifically, we call on local, state and federal lawmakers to do the following:

- **Keep Starrett City affordable by keeping the complex in the Mitchell Llama program**. We have asked New York State to pass legislation so that if any owner did opt out of the Mitchell Lama program we would be covered by rent regulations under the New York State Division of Housing and Community Renewal (DHCR).

- **Pass a city law precluding landlords from discriminating against persons based on their source of income**. That would mean that any Starrett owner would have to continue accepting Section 8 vouchers, and we would have some protections from being evicted.

- **Congress should pass H.R. 44, the "Stabilizing Affordable Housing for the Future Act."** The bill would preserve affordable housing opportunities for low-income families and protect Starrett residents. Under this measure, a developer's bad track record would effectively preclude them from purchasing a new publicly subsidized property, such as Starrett.

Thank you for taking time to listen to me and those I represent - ACORN members of Starrett City, and people who have worked hard all our lives.

Testimony of Jerilyn Perine
Executive Director
Citizens Housing and Planning Council
Before the Subcommittee on Housing and Community Opportunity
Of the House Financial Services Committee
Tuesday, July 10, 2007

Good morning Chairwoman Waters and members of the subcommittee. My name is Jerilyn Perine. I am Executive Director of the Citizens Housing and Planning Council. Thank you for this opportunity to testify on this important issue.

Since 1937 the Citizens Housing and Planning Council of New York has, through its impartial research and nonpartisan advocacy, shaped and influenced public policy to improve the City's housing stock and the quality of life in New York City's neighborhoods. Its board of practitioners includes experts in the fields of urban planning, architecture, zoning and land use law, housing finance and development, and community development. They provide a practical perspective that enhances the Council's high quality quantitative research and analysis on issues affecting the City's future.

The sale of Starrett City raises two sets of issues: the long term affordability of the project and the ongoing financial and physical stability of the project. By drawing a distinction between threats to affordability alone and long term maintenance and capital investment, the justification for when government should intervene can be determined. The Starrett City story is also important since it is the most prominent of a rising tide of high-cost purchases of affordable housing stock.

In a city where affordability gaps are growing and the housing needs of working households are universally recognized, it is easy to understand why there is widespread concern as projects age out of their regulatory restrictions. However government intervention is not always warranted. For instance government intervention in the recent sale of Stuyvesant Town and Peter Cooper Village was not warranted, precisely because the sale of the project did not threaten the buildings' underlying solvency nor did it directly threaten the existing tenants. While affordability grabbed the headlines, in fact the tenants would still enjoy all the protections of rent stabilization after the sale.

In Starrett City, and in many other projects, there is widespread concern that the proposed purchase price is simply too high to allow for proper capital investment, maintenance, and operation of Starrett City, raising questions about the intent of the proposed new owners and the future of the project's physical and financial viability. Starrett City is but one example of a growing trend of high cost purchases which raise grave questions as to the continued viability of such housing.

Some would argue that purchase price reflects the market and government should not play a role. Letting market forces correct over-leveraging may work in overbuilt new home markets where homes up for sale are left vacant. There the pain of market correction falls typically on the builder who must cut back on production and the seller who must lower the purchase price. However the burden of market correction in over-leveraged, *occupied multi-family rental* buildings falls squarely on the existing tenants. In the case of Starrett City, as many as 20,000 people may bear the consequences. As this phenomenon grows many more people are facing the same problem.

While it is clear that government has a valid interest, unfortunately most regulations are not designed to prevent potentially "bad" owners from purchasing projects at highly speculative prices. Legislative changes are required to ensure that sales of projects which were the beneficiary of significant government investment are to be properly reviewed.

Starrett City, the largest subsidized housing development in the United States, has achieved affordability through a cornucopia of subsidy from the Federal government, the State of New York and the City of New York. Hundreds of millions of dollars have been poured into this project. Those subsidies include:

- The §236 program - Also known as the Interest Rate Reduction Program, §236 provided a long term subsidy that reduced the interest rate on the mortgage, thereby reducing the owner's costs. For Starrett City, the §236 subsidy continues through the year 2016 although the owner may terminate the contract at any time.
- Rental Assistance Program (RAP) - In order to reduce rents that were too high for the local market at the time, the Department of Housing and Urban Development (HUD) put about 2,500 apartments into the Rental Assistance Program (RAP), a forerunner of the Section 8 rent subsidy program. Under RAP, owners are paid the difference between what the tenant can afford to pay, and the HUD-computed cost of the apartment that the tenant occupies.
- Section 8 - HUD also added about 1,100 Section 8 project-based vouchers to the project and the original rent was determined by projected operating costs.
- Mitchell Lama Loan – The State of New York provided the original construction loan for the property at below market interest rates.
- Real Estate Tax Abatement - The City also provides real estate tax abatements, as it does for all Mitchell-Lama developments.

62 percent of the households in Starrett City currently receive direct rental assistance. Another 1,600 of the apartments are restricted to households earning less than 80 percent of Area Median Income by the §236 program, a lower income standard than required in the Mitchell-Lama program (Mitchell-Lama tenants at Starrett City can have incomes between $90,000 and $152,000 depending on apartment size; HUD income limits at the 80 percent of AMI standard is $56,700 for a family of four). In total 88 percent of Starrett City's households qualify under HUD income limits at the 80 percent of median income level.

The proposed $1.3 billion purchase price, bid by Clipper Equities LLC, whose main principal is David Bistricer, breaks down to about $221,000 per apartment. If the buyers borrow the purchase funds at 6.5 percent, the monthly cost per apartment to pay an interest-only loan is about $1,200. If operating costs are conservatively estimated at $500 per unit per month, the average rent needed to pay for purchase and operations is at least $1,700 per month, not including taxes and profit. Current monthly rentals on RAP and Section 8 subsidized apartments at Starrett City are well below that number.

HUD must approve the new buyer in order to transfer the §236 subsidy and the RAP contracts. The review for this is the "Previous Participation Review" or "2530 process" named after the form which is filed with HUD when seeking permission to become the new owner or principal of a HUD subsidized project. The standard of review is set forth in 24 Code of Federal Regulations §200.230. HUD reviews the new owner's participation in other HUD projects, whether they are debarred by the Federal government, whether they have been convicted of a crime, or whether they have defaulted on Federal or local housing finance agency loans.

One of the few provisions under which non-HUD related conduct can be considered is under 24 CFR 200.230 (c) (7) where HUD may consider "...other evidence that the principal's previous conduct or method of doing business has been such that his participation in the project would make it an unacceptable risk from the underwriting standpoint of an insurer, lender or governmental agency."

However, HUD in the past has not performed this type of review. The 2530 form itself does not ask the questions needed to conduct a review on this basis. Congress recently addressed this question in the area of sales of HUD-owned property by requiring HUD to review the applicant's record of code compliance in the local jurisdiction (Section 219 of the Consolidated Appropriations Act, 2004 (Pub. L. 108–199, approved January 23, 2004)). However Congress did not mandate a similar review where HUD was merely approving the transfer of a project from one owner to another.

Starrett City is merely one example of owners buying out of programs which regulate the price of affordable housing. While these buyouts are to some extent inevitable, much more could be done to

ensure predictability for owners, assuage the fears of existing tenants, and protect the government's interest in the long-term stability of the project.

In New York City, as a result of an extremely hot real estate market, we have seen numerous purchases of rental housing, both regulated and unregulated, at prices that raise serious questions about the continuing viability of the buildings.

Mitchell-Lama owners of projects such as Starrett City have a right to ask that the City, State, and Federal governments live up to the original deal, allowing an end to the restrictions. At the same time, it is not unreasonable for the government to seek to insure that its considerable investment remains financially and physically viable into the future. If additional affordability is desired, owners should be compensated in some way.

Legislation introduced in Albany (A795) by Assembly Housing Chair, Vito Lopez, would make two basic reforms to the Mitchell-Lama process. First, in order to induce owners to remain in Mitchell-Lama, it would end the current cap of 6 percent returns to the owner on their investment in such projects. The bill presumes that it is in the interest of the public and the tenants to maintain as many such buildings in the program as possible. If a building can earn a bigger return for owners while keeping the building affordable, there is no reason to limit an owner's return.

Second, in order to protect tenants, all units in Mitchell-Lama buildings that leave the program should be subject to rent stabilization. The current oddity is that all Mitchell-Lamas constructed prior to 1974 are rent stabilized. Those constructed after that date, like Starrett City, are not subject to rent stabilization. Providing the restrictions that come with rent stabilization would serve to dampen down the prices being bid for acquisition.

While there is considerable opposition from owners of rental property to expanding rent stabilization to new categories of rental properties, this subset is finite and will not increase over time. Furthermore, New York City already has examples of tax abatement programs which condition exemptions on the acceptance of rent stabilization for the period of abatement.

Lastly, the pending legislation should be amended to include clear language giving either the City or the State the authority to approve any new purchaser or principal to insure that they have a good track record in maintaining and operating housing.

At the federal level, Congress should mandate that review of the purchasers in federally subsidized housing should include the track record of the new owner beyond HUD-subsidized housing. The new owner's performance on housing maintenance and construction should be reviewed by HUD, in concert with local authorities, prior to HUD approving any such purchase. HUD should also review the purchase price to insure that it is based on a reasonable expectation of rental income and future capital appreciation.

This principle has been included in HR 44 introduced by Representative Nydia Velazquez in January of this year. Congress should pass it and the President should sign it.

Last and most important, its time to consider how to reconfigure some of our rent and tax subsidy programs to target assistance to tenants in projects that may be sold. The Section 8 enhanced voucher program does this in part. However it should be expanded to non-federally assisted projects such as Mitchell-Lamas. The City and the State should also consider real estate tax abatement programs that are geared to rewarding owners for keeping rents affordable.

Testimony of the New York State Division of Housing & Community Renewal

DEBORAH VAN AMERONGEN, COMMISSIONER

Hearing before the United States Congress House Subcommittee on Housing and Community Opportunity

Affordable Housing Preservation: Lessons from Starrett City

July 10, 2007

Good morning. Thank you Chairwoman Waters, Congressman Towns, and distinguished members of the Subcommittee for inviting me here today.

It is my pleasure to provide testimony regarding Starrett City and New York State's efforts to preserve affordable housing opportunities for our citizens.

Introduction and Background

My name is Deborah VanAmerongen and I'm the Commissioner of the New York State Division of Housing & Community Renewal. We are an agency that is dedicated to developing partnerships and supporting community efforts to provide equal access to safe, decent and affordable housing.

DHCR administers housing development and community preservation programs, oversees and regulates the State's public and publicly assisted rental housing, and administers the rent regulation system for more than one million rent-regulated apartments throughout the State.

Before becoming Commissioner of DHCR, I was HUD Director of Multi-family Housing for the New York Region, where I oversaw the portfolio of federally-financed affordable housing in the New York City area. In my role with HUD, I became very familiar with Starrett City and its unique character.

I am both humbled and honored that Governor Eliot Spitzer selected me to serve the people of the State of New York as Commissioner of DHCR. Humbled to be charged with the responsibilities of this position at a time when we face a critical shortage of affordable housing; and honored to be part of an administration that clearly recognizes the significance of our existing affordable housing stock and is committed to preserving it.

The State of Affordable Housing in New York

There is no doubt—housing is vital to the future of our nation. And, as Governor Spitzer has stated, the affordability crisis we face threatens to "...strangle future economic growth and crush the dreams of families young and old."

The facts bare this out:
-New York State is the 5th most expensive jurisdiction in the Nation in terms of housing cost.

-Employers often cite the lack of affordable housing as a deterrent to bringing new businesses to New York State or as a barrier to expansion.

-In Nassau and Suffolk Counties the Fair Market Rent (FMR) for a two-bedroom apartment is $1,356. To afford this, a minimum wage earner must work 155 hours per week, 52 weeks per year.

In recent months, we have seen disturbing trends emerge in the housing market as New York City's vacancy rate reached an all-time low and the sub-prime mortgage lending market has begun to collapse.

Couple this environment with aging buildings and owners buying out or opting out of affordable housing programs and you begin to get a sense of the challenges before us.

The Mitchell-Lama program, of which Starrett City is a part, has helped us address this problem, and has provided affordable housing opportunities to hundreds of thousands of middle-income families.

Mitchell-Lama was established in 1955 to serve low and moderate-income New Yorkers. It was named for the legislation's sponsors, Manhattan Senator MacNeil Mitchell and Brooklyn Assemblyman Alfred Lama, and it serves as a national model for successful affordable housing.

Despite its success, the Mitchell-Lama program now faces grave threats that demand creative solutions. From the original portfolio of 270 State-financed Mitchell-Lama Developments, 190 remain under DHCR's supervision. Many of these are in dire need of costly repairs, updates or major overhauls of heating systems, roofs, or elevators.

Some are sited on what has become prime real estate in New York City where property values have risen dramatically. In Upstate New York, they face the challenge of competing with low-cost private housing in soft markets.

Certainly, New York is not unique in this respect. States throughout the country struggle to meet the housing needs of low and middle-income residents.

The maelstrom that resulted over Clipper Equity's proposed purchase of Starrett City is a perfect illustration of the challenges we face: we can not build our way out of our housing crisis—we must maintain and preserve what we have.

Why Starrett City Matters

More than 15,000 people live at Starrett City, but the facility is less notable for its size than it is for its unique character and long-term success.

For more than 30 years Starrett City has been a State Mitchell-Lama housing development. Unlike many other housing developments, Starrett City was originally established for low and moderate-income people. It receives substantial government assistance and always has.

Starrett City has a mortgage with the Housing Finance Agency and receives various tax breaks and rent subsidies, including Federal subsidies under the 236 Interest Reduction Payment Program, HUD's Rental Assistance Program and Section 8.

This is a model that has worked well. Starrett City is a successful example of Mitchell-Lama housing. It is well maintained and is a much loved home to thousands.

In my first week as Commissioner, Clipper Equity signed its contract to purchase Starrett City. The purchase price -- an astronomical $1.3 billion -- raised immediate concerns that the purchaser would be unable to retain Starrett City's long-term affordability and continue the high-quality maintenance of the complex.

Upon closer examination, we found that indeed, Clipper Equity's proposal was seriously flawed.

New York's Response

As a regulating agency, DHCR was asked—along with HUD—to review Clipper Equity's proposal and approve the sale and refinancing of Starrett City, making us a central figure in the battle to protect Starrett City's residents and keep its nearly 6,000 units affordable.

Talk about a baptism by fire. It was the most interesting first week on a job that *I've* ever had. In our analysis of Clipper Equity's proposal, DHCR concluded that, in addition to a purchase price that was far too high to support the mortgage at current rent levels, the plan failed to adequately insure long-term affordability at Starrett.

After fully investigating the facts, DHCR refused to approve the proposed sale. In our letter of rejection we sited three main reasons why the plan was untenable under existing law:

First, the purchaser's affordability plan was based on an unreliable combination of tenant-based vouchers that would leave the project with the tenant, and the divestiture of all potentially income-producing non-residential property.

Second, initial rents would be raised to market rents for the area. Future rents would be subject to rent stabilized increases, but over time this would erode the affordability of the community at large.

And third, approval of the plan would set an undesirable precedent for other Mitchell-Lama purchasers who would want to receive similar treatment and remain in the program receiving government subsidies.

The bottom line is that the long-term affordability of the project was in jeopardy.

To support its misguided plan, the purchaser was requesting enormous levels of federal government subsidy to sustain the purchase price, and on top of that, was asking DHCR to act beyond its statutory authority and bend the structure of our Mitchell Lama program to accommodate his proposal.

DHCR's refusal to approve the sale of Starrett City, in the face of enormous pressure, is a clear sign that it is a new day at DHCR. This administration employed due diligence, found the plan to be lacking, and rejected the sale.

Lessons Learned

Perhaps the most significant lesson learned from Starrett City is that when various levels of government speak with one voice to protect the public, we can accomplish great things.

The proposed sale of Starrett City was a clarion call to the State, Federal and local agencies with a stake in affordable housing.

Immediately, DHCR, HUD, the New York State Housing Finance Agency, and New York City's Department of Housing Preservation & Development mobilized to communicate the importance of Starrett City's long-term affordability to the community, the owners, prospective buyer, and tenants.

I am convinced that this unprecedented level of coordination and cooperation was a major factor in our success in keeping Starrett City viable affordable housing.

And I am equally confident that this experience will serve to make us an even stronger force in the face of any future challenge to our affordable housing stock.

I have to thank Senator Schumer for his steadfast support and commitment to preserving Starrett City and protecting its tenants. He was instrumental in this effort. Senator Schumer, Congressman Towns, City Council President Quinn, Assemblyman Lopez, and Councilman Barron led the charge to rally the tenant organizations in opposing this sale. Their support was invaluable.

And I must acknowledge the extraordinary leadership of Marie Purnell of the Tenant's Association and ACORN, who worked together to organize an extremely effective campaign to oppose this sale.

New York's Efforts to Preserve Affordable Housing

As DHCR forges ahead in our mission to provide access to safe, affordable housing, we do so with renewed energy and a clear mandate for change. Governor Spitzer has declared the preservation of affordable housing a top priority of his administration. Our agency is now proactively engaged in a long-term strategy to seek and develop opportunities for preservation.

New York State has been a leader in the creation of affordable housing, but now we must lead the way toward its preservation for the future.

Here are some ways in which DHCR is answering the new administration's call:

- Scrubbing the Mitchell-Lama portfolio. DCHR is working closely with the Housing Finance Agency (HFA) to assess the State's Mitchell-Lama portfolio. We have gathered information on the condition of the buildings, ownership, regulatory structure and subsidies. Based upon this analysis 20 projects have been identified for immediate rehabilitation and 40 others are possible candidates for preservation.

DHCR, HFA, and ESDC are also collaborating to find the most effective preservation tools to encourage owners to remain in affordable housing programs. For instance, offering new low-interest rate financing loans in exchange for remaining in the program and keeping housing affordable.

- We are also in the process of closely reviewing properties financed in the early years of the Low-Income Housing Tax Credit Program. These projects initially had a 15-year mandatory compliance period, which was extended to 30 years. However, the investors who financed these projects are only required to remain involved for the first 15 years. We currently have more than 2,000 units that are beyond their first 15 years of occupancy and another 15,000 set to pass that mark in the next five years. We are looking closely at this portfolio to determine which of these properties may need rehabilitation or other preservation efforts.

- Taking a Proactive Approach. For the very first time in the history of DHCR, the agency is undertaking a comprehensive review of all of our assets and reaching out to owners to initiate discussions about how our programs and resources may help them preserve and revitalize their properties.

Earlier this year, Governor Spitzer proposed increasing the luxury decontrol rent levels to $2,800 from $2,000. These limits had not been increased in more than 14 years, during which time rents in New York City increased dramatically.

Conclusion

Perhaps most significantly, under the leadership of Governor Spitzer, DHCR is changing the way it does business. We recognize that if we are going to expect our programs to be more efficient, we must make ourselves more efficient, as well.

That means a more transparent, proactive, and cooperative approach to our work than ever before. It means initiating dialogue with those organizations and government entities that share similar goals and concerns. And it means finding new ways to solve problems and meet the challenge of providing housing to those who need it most.

Our strategy is threefold:

1. Coordinate: We are working to achieve better coordination between the multiple state agencies with a stake in affordable housing. Our goal is to streamline the state's housing programs, making them more efficient and less costly.

2. Collaborate: In recent months, DHCR and its sister agency HFA have developed a close partnership where one did not exist before. This relationship is critical to the missions of both agencies and an important step toward preserving our affordable housing portfolio. We are working together to strategically target our resources across the State and collaborating on projects on a regular basis.

3. Think Creatively: The severity the affordable housing crisis requires bold measures and creative thinking. DHCR is finding new ways to preserve affordable housing, to encourage the development of new housing where we can, and to engage our business and non-profit partners on a variety of levels.

In terms of Starrett City, DHCR will continue to be vigilant. Both DHCR and HUD joined together to refuse the contract from the purchasers and since then we have received no revised offer.

DHCR is and will remain willing to work with the existing owners and prospective buyers who seek to maintain affordable rents and who have the best interests of the residents of Starrett City in the forefront. Throughout the events of Starrett City, DHCR, under the innovative leadership of Governor Spitzer, responded swiftly and communicated our position clearly to all those involved. During the entire process our goal was to ease the minds of the residents, work openly with the business community and coordinate efforts with our government partners.

We will employ this model as we move into the future. And we look forward to working with all of you to make not only New York, but our entire nation, a leader in affordable housing.

Thank you very much for allowing me to testify before you today.

Written Testimony of David Bistricer
before the U.S. House of Representatives
Subcommittee on Housing

July 10, 2007

Chairwoman Waters and Congressman Towns.

Good morning. My name is David Bistricer and I am a principal in Clipper Equities, LLC. Our real estate firm is a third generation family run company which is a long term holder of residential properties. We currently own 5,000 apartments in New York City and manage 4,000 of them.

I am pleased to submit this written testimony to you this morning concerning the future of Starrett City. In a very competitive bidding process last fall we were the successful bidder for Starrett City, a 5,881 apartment complex currently regulated by New York State and the U.S. Department of Housing and Urban Development ("HUD") under the Mitchell-Lama and Section 236 programs. Under both State and Federal regulations the existing owners have the right to opt out of these programs and convert the property to conventional apartments. In fact, if the owners do nothing the affordability restrictions will terminate by their own contractual terms in nine years.

Our successful bid has created much public discourse about the potential loss of Starrett City as an affordable housing resource. As we have discussed with the residents and City, State and Federal officials we are committed to maintaining Starrett as affordable housing. We have developed an affordable housing plan in which we commit to remain in the Mitchell-Lama program and have rent increases governed by the New York State Department of Housing and Community Renewal ("DHCR") for the next 15 years. Although the existing mortgage will be

paid off and by its terms the Rental Assistance Payments ("RAP") Contract terminated the residents will be protected by our voluntary commitments to maintain affordability. The existing Section 8 contract will remain in place and, we will make substantial physical improvements including the development of a Town Center with new retail and neighborhood services. We have retained a nationally renowned planning firm to assist us in this development effort. Their projects include the U.S. Capitol and Anacostia Waterfront in Washington DC and Grand Central Terminal and Ellis Island here in New York City.

Let me provide some specifics on our affordable housing plan:

* In June a rent increase approved by DHCR and HUD became effective. We are willing to commit to limit future rent increases to those approved by the Rent Guidelines Board ("RGB"). RGB rent increases over the past 4 years have been substantially less than those approved by DHCR and HUD and have also lagged behind HUD's OCAF adjustment used in the Section 8 program. Rents therefore will remain below market and affordable.
* The Section 8 contract which covers 20% of the apartments will remain in place. Rent increases will be subject to HUD's Section 8 renewal process.
* None of the more than 2,300 seniors or handicapped residents will pay any more rent.
* Upon termination of the RAP contract all residents covered under that rent subsidy contract now will receive an enhanced voucher.

Testimony of David Bistricer

* Of the remaining residents not currently receiving rental subsidy 65% will be eligible for an enhanced voucher. Because New York City is a low vacancy area (less than 3%) the eligibility threshold for enhanced vouchers is increased to 95% of area median income. The enhanced voucher statute requires residents' contribution to rent to be the greater of existing contributions or 30% of area median income. If a resident contribution is currently less than 30% it must be increased to the 30% level.

* We hope that HUD will allow any increase in resident contribution to be phased in over a 3 year period.

With the cooperation of DHCR and HUD we are willing to "project base" 10% of the enhanced vouchers. This project based subsidy along with the retention of the Section 8 contract would provide project based rental assistance for 30% of the residents.

We also seek HUD's cooperation for Starrett City residents who are "over housed". HUD policy requires that over housed residents move into the right sized apartment. Since many of these residents are empty nesters who raised families at Starrett City we hope that this HUD policy may be waived so as to not disrupt their lives.

Although Starrett City has been well maintained we intend to invest $50 million in physical improvements. These improvements include upgrades throughout the property with substantial improvements to the existing power plant resulting in increased energy efficiencies and significant reductions in carbon emissions.

Our plan will maintain affordability, improve residential life through the creation of a town center, and generally make Starrett City a better place to live. As I mentioned our family

invests in real estate for the long term and we are excited about this acquisition. Most importantly we can accomplish this without substantial rent increases.

* 79% of tenants will have no increase.

* 4,469 will receive vouchers and under HUD Rules will have no increase in rent because they are already paying 30% of income.

* 121 units are occupied by senior or disabled tenants who are voucher eligible and who pay less than 30% of increase. We will not increase tenant contribution.

* 107 units are occupied by senior or disabled tenants who do not qualify for vouchers because their income exceeds 95% of median and who currently pay less than the DHCR/HUD approved rent (a "concession" rent). This tenant's rent will not be increased from current concession rent in year 1. Starting in 2, the concession rents will be increased by RGB increases which are comparable to the increases they are currently receiving.

* 626 units (11%) are occupied by non-senior/non-disabled tenant who pay less than 30% of income. We will allow a 3 year phase to 30% of income. These tenants may have an increased contribution initially but in the long term will benefit since their contribution will not exceed 30% of income no matter how much the actual rent increases.

* 567 units (10%) are occupied by non-seniors/non-disabled tenants who do not qualify for vouchers because they have income which exceed

95% of median. Currently these tenants pay a concession rent. We will allow a three year phase-in to the HUD/DHCR rent with RGB increases.

* Clipper has agreed to waive any rights it has to vacancy and luxury de-stabilization and MCI increases with respect to the $50 Million in capital improvements to the Project.

* Future rents will remain below market and be affordable to families earning less than one hundred twenty-five percent (125%) of median income. These are our firemen, policemen, school teachers and other civil servants who, for the most part, are precluded from living at Starrett City now because they make too much money, yet have few other opportunities to live in such a fine project as Starrett City.

Now, let me address some issues that have been misrepresented in the press.

Purchase Price: The purchase price is $1.3 billion. Clipper was not the only bidder willing to pay more than $1 billion for this unique property. It is important to understand that the value is not just in the 5,881 apartments. There is significant value in the commercial buildings, the power plant and potential development of open space included in the one hundred forty acre Starrett City footprint. When the value for the non-residential components are backed out of the purchase price, the per unit cost is $179,000. It is not $220,000 per unit as has been widely reported.

This is approximately $127 per square foot. Compare the $127 per square foot cost with $120 per square foot which is the asking price at nearby Fairfield Towers which has no schools, no sports club, no garages and limited views and amenities.

Testimony of David Bistricer

Flatbush Gardens: We purchased Flatbush Gardens in 2005. At the time of purchase it had 8,700 building code violations. More than 70% of these violations have been cleared although the administrative process to remove them from the city records is not complete. We have installed 59 new elevators – a primary complaint of the residents. Residents' public statements of our ownership include:

"Renovation of all elevators a monumental feat."

"An understanding and willingness to meet the needs of residents."

"Honored all of your stated agreements."

"Positive impact on the quality of life."

Further, the New York City police statistics for Flatbush Gardens show a dramatic reduction of crime since our ownership.

I want to thank you for allowing me to submit this testimony this morning. I hope that I have conveyed our commitment to maintaining Starrett City as an affordable housing resource and clarified our true intentions for the future of this unique property. I have a copy of our affordable housing plan which I submit to you for the record.

Thank you.

STARRETT CITY ASSOCIATES
150 EAST 58TH STREET, 23RD FLOOR
NEW YORK, NEW YORK 10155
(212) 688-8110

DISQUE D. DEANE
MANAGING GENERAL PARTNER

OWNER OF STARRETT CITY

The Honorable Maxine Waters
Chairwoman, House Financial Services
Committee, Subcommittee on Housing and
Community Opportunity
Washington, D.C. 20515

July 9, 2007

Dear Chairwoman Waters:

Thank you for inviting me to appear at the Housing Subcommittee's hearing scheduled for July 10th. While I will be out of the country at that time, I would like to present the following written comments on behalf of Starrett City's ownership.

I have been associated with Starrett City since 1972, forming the investor group which put up the $33 million of private equity and guaranteed all the construction and financial risk that was needed to build the complex and remaining the investor group's representative. That investor group stepped into a largely undeveloped neighborhood in a down real estate market and assumed a risk that other developers were not willing to take. Starrett City has always been privately owned and operated. In 1985, I became the Managing General Partner and have viewed my responsibilities for more than twenty years in that capacity as extending to the tenants, the governmental housing agencies and the investors. Sometimes these groups have overlapping interests and goals, and sometimes they do not.

With respect to the tenants and their families, we have worked hard to provide a safe and decent living environment. Tenant satisfaction is demonstrated by Starrett City's low move-out rate (and the tenants' current advocacy efforts). We have many families who moved in 30 years ago and never moved out. In fact, in some cases, we have 3 generations. During your visit to Starrett City you will observe the superior housing facilities and community services. At a time when high-rise projects for low income tenants are being demolished around the country, the achievement of Starrett City --with its 46 high-rise buildings and other amenities -- is spectacular. We have created a lasting community, not a project.

We also take our responsibilities to the federal, state and city housing agencies very seriously. With the help of Grenadier Realty Corp., our managing agent, we have consistently complied with federal and state housing laws and regulations. This accomplishment is demonstrated by the outstanding ratings that Starrett City has received on the frequent government inspections. Further, Starrett City stayed in the Mitchell-Lama program for 13 years longer than it was contractually required to do. Our relationships with the government officials and agencies that have jurisdiction over Starrett City have been uniformly positive and mutually respectful. Just as we have lived up to our responsibilities, so we anticipate that those agencies will continue to deal with Starrett City consistent with the applicable contracts and legal regulations.

As you can appreciate, we also have responsibilities -- fiduciary responsibilities -- to our 250 long-term investors, many of whom have been invested in this development for more than 35 years. During that time, the return on this valuable real estate asset has been *de minimus*, while the Starrett City investment was appreciating, building an economic residual for the investors as required by federal tax law. About a year ago, we started to receive unsolicited offers to purchase Starrett City. We then consulted a nationally recognized real estate firm as to the value of the community we had created and were advised that Starrett City -- including its commercial, parking and development components, as well as its residential units -- was worth well over $1 billion. With the help of real estate professionals, we conducted a bidding process from late last year to early this year and received 5 bids in excess of $1 billion. We selected a subsequent pre-emptive bid of $1.3 billion and entered into a binding contract with Clipper Equity. The market, the experts and five bidders determined the value of Starrett City. We are now responsible to the Starrett City investors to realize that value, rather than locking their investment dollars into an asset that has fortunately appreciated through wise and responsible management.

There has been reckless speculation about how the Clipper Equity purchase price translates into a per residential unit cost. The figures we have seen mischaracterize the transaction and ignore the composition and magnitude of the Starrett City assets: 7,200,000 square feet of gross residential floor area; more than 1,000,000 square feet of commercial space that includes eight garages, an 18 mega-watt power plant, a 3,000 member sports club and community center, a place of worship and a shopping center; 140 acres of land; and millions of feet of development rights, known as FAR. Indeed, fairly calculated, the price per square foot of residential space which Clipper Equity seeks to buy is far less than the replacement costs today of any building in the Borough of Brooklyn. These estimates do not even include the cost of raw land, (which is not available). The purchase price is remarkable only in its reasonableness.

Starrett City's ownership and management have fulfilled their obligations to the tenants, the governmental housing agencies and the public. The government subsidies received through the years benefited the tenants and made it possible for families with poor and moderate means to live in this community. The receipt of those subsidies by the tenants or the project did not transform Starrett City from a privately owned asset to a public work. It is now time for the patient and civic-minded investors to move on and that is what the contract with Clipper Equity attempts to do. That contract is a valid and enforceable obligation, and if the federal and state governments provide their approvals, then a new owner will assume the management, development and improvement of Starrett City. That is the way the American system works.

Thank you for your consideration of these comments, which we respectfully request be entered into the record.

Respectfully submitted,

Disque Deane (sps)

Disque D. Deane

cc: The Honorable Judy Bigget

O