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LIVING IN AMERICA: IS OUR PUBLIC HOUSING SYSTEM UP TO THE CHALLENGES OF THE 21ST CENTURY?

HEARING

BEFORE THE

SUBCOMMITTEE ON FEDERALISM AND THE CENSUS

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

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LIVING IN AMERICA: IS OUR PUBLIC HOUSING SYSTEM UP TO THE CHALLENGES OF THE 21ST CENTURY?

WEDNESDAY, FEBRUARY 15, 2006

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FEDERALISM AND THE CENSUS,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:05 p.m., in room 2247, Rayburn House Office Building, Hon. Michael R. Turner (chairman of the subcommittee) presiding.

Present: Representatives Turner, Dent, Foxx and Clay.

Staff present: John Cuaderes, staff director; Jon Heroux, counsel; Juliana French, clerk; Adam Bordes, minority professional staff member; and Jean Gosa, minority assistant clerk.

Mr. TURNER. A quorum being present, this hearing of the Subcommittee on federalism and the Census will come to order.

We want to welcome you to the subcommittee's oversight hearing entitled, "Living in America: Is our Public Housing System up to the Challenges of the 21st Century?" This will be the first in a series of hearings designed to examine the state of public housing system in the United States.

Congress first authorized public housing in 1937 as part of Franklin D. Roosevelt's Depression-era public works legislative package. Over the years the program has evolved from a public works program designed to serve predominantly working families on a temporary basis before moving on to permanent market-rate housing after a few years, to one serving poorer families who are more likely to become long-term residents, with fewer options for securing permanent unsubsidized housing.

In my hometown of Dayton, OH, the Dayton Metropolitan Housing Authority serves close to 15,000 families through its public housing communities or Section 8 vouchers. While we have made significant progress in the housing arena over the last 10 years, addressing the housing needs of the city's poorest families remains a significant challenge as we seek to create quality affordable housing for all families.

Despite several minor attempts to reform our public housing system, by the mid-1990's, there were still far too many cases where public housing did not provide quality, affordable housing to the Nation's neediest families. In 1998, Congress passed the Quality Housing and Work Responsibility Act to address the many problems within the public housing system. This landmark legislation

was the largest overhaul of the public housing system in its long history.

Today, public housing programs serve more than 3 million families at a price of more than $20 billion annually in Federal funding. Public housing programs consume nearly 60 percent of HUD's entire annual budget.

In recent years, public housing programs and housing assistance have taken a back seat in the national debate. But with a combined Federal, State and local government investment of more than $50 billion, it is time we begin looking to see if these funds are being well spent. In this hearing, we will look at our public housing system from a broad view. Later, we will narrow the subject matter of any follow-on hearings based on what we learn in part from our witnesses today.

This hearing will examine the factors that led up to Congress' decision to reform the Nation's public housing programs in 1998, as well as the recommendations made by the Millennial Housing Commission in its 2002 report entitled, "Meeting our Nation's Housing Challenges." We will examine the present state of public housing and take a broad look at how effective reform legislation has been in creating better, safer and more affordable housing for the Nation's low and moderate-income families.

We have on our first panel the Hon. Rick Lazio of JPMorgan Chase. Representative Lazio is the former chairman of the House Financial Services Subcommittee on Housing and Community Opportunity, and the author of the Quality Housing and Work Responsibility Act of 1998.

Next we have the Hon. Henry Cisneros, who was the Secretary of Housing and Urban Development from 1993 to 1997, and is currently chairman of CityView.

Next we have David Wood, Director of Financial Markets and Community Development at the Government Accountability Office.

Last, we have Renee Glover, a former Commissioner on the Millennial Housing Commission and currently the CEO and president of the Atlanta Public Housing Authority.

On our second panel we have five distinguished witnesses. First is Rod Solomon, who is counsel with the law firm of Hawkins Delafield & Wood, and was the Deputy Assistant Secretary for Policy at HUD.

Next we have Conrad Egan. Mr. Egan is currently president of the National Housing Conference, and the former executive director of the Millennial Housing Commission.

Following Mr. Egan, we will hear from Dr. Alexander von Hoffman, a historian and senior research fellow at Harvard University's Joint Center for Housing Studies.

Next we have Dr. Edgar Olsen, professor of economics at the University of Virginia.

Last, we have Dr. Michael Stegman, who is the director of the Center for Community Capitalism at the Kenan Institute of Private Enterprise, and an adjunct professor of entrepreneurship at the University of North Carolina.

I look forward to the expert testimony our distinguished panel of leaders will provide to the subcommittee. I thank you for all your time.

I recognize Mr. Clay, our ranking member.

[The prepared statement of Hon. Michael R. Turner follows:]

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ONE HUNDRED NINTH CONGRESS

Congress of the United States

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SUBCOMMITTEE ON FEDERALISM AND THE CENSUS
Congressman Michael R. Turner, Chairman

OVERSIGHT HEARING
STATEMENT BY MICHAEL R. TURNER, CHAIRMAN

Hearing topic: ***"Living In America: Is Our Public Housing System Up to the Challenges of the 21st Century?"***

Wednesday, February 15, 2006
2:00 PM
2247 Rayburn House Office Building

OPENING STATEMENT

Welcome to the Subcommittee's oversight hearing entitled, *"Living In America: Is Our Public Housing System Up to the Challenges of the 21st Century?"* This will be the first in a series of hearings designed to examine the state of public housing system in the United States

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housing needs of the city's poorest families remains a significant challenge, as we seek to create quality affordable housing for all families.

Despite several minor attempts to reform our public housing system, by the mid-1990s, there were still far too many cases where public housing did not provide quality, affordable housing to the nation's neediest families. In 1998, Congress passed the Quality Housing and Work Responsibility Act of 1998 (QHWRA) to address the many problems within the public housing system. This landmark legislation was the largest overhaul of the public housing system in its long history.

Today, public housing programs serve more than 3 million families at a price of more than $20 billion annually in federal funding. Public housing programs consume nearly 60 percent of HUD's entire annual budget.

In recent years, public housing programs and housing assistance have taken a back seat in the national debate. But with a combined federal, state, and local government investment of more than $50 billion, it is time we begin looking to see if these funds are being well spent. In this hearing, we will look at our public housing system from a broad view. Later, we will narrow the subject matter of any follow on hearings based on what we learn from our witnesses today.

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We have on our first panel the Honorable Rick Lazio of JP Morgan Chase. Rep. Lazio is the former Chairman of the House Financial Services Subcommittee on Housing and Community Opportunity and the author of the Quality Housing and Work Responsibility Act of 1998. Next, we have the Honorable Henry Cisneros, who was the Secretary of Housing and Urban Development from 1993 to 1997 and is currently Chairman of CityView. Next we have David Wood, Director of Financial Markets and Community Development at the Government Accountability Office. Last, we have Renee Glover, a former Commissioner on the Millennial Housing Commission and currently the CEO and President of the Atlanta Public Housing Authority

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I look forward to the expert testimony our distinguished panel of leaders will provide the Subcommittee. Thank you all for your time today and welcome.

####

Mr. CLAY. Thank you, Mr. Chairman. Let me first begin by thanking you for starting this legislative session with a review of our Nation's public housing program. This topic is of significant importance to all of our constituents, from Dayton to St. Louis, and everywhere in between.

Since its origins dating back to the Great Depression, public housing programs have served as a bedrock of support for millions of families, elderly and disabled individuals. At the same time, however, these programs have struggled to mitigate significant economic and social ills that have prevented our capital investments and programmatic goals from achieving their intended outcomes. Public housing, nevertheless, is in more demand than ever, as economic disparities and escalating housing costs have forced an overwhelming number of individuals to seek assistance.

Being from an urban center like St. Louis, I know firsthand the value of public housing to my constituents. Our local PHA, the St. Louis Housing Authority, has a budget of approximately $60 million that is derived entirely from HUD. Its public housing program has a budget of $33 million to support approximately 3,800 units located in 33 developments throughout the city. Unfortunately, however, approximately 700 of these units are not suitable for use because of modernization or demolition activities, and the average age of a public housing building is 38-years-old. Complicating matters is the strain on its Section 8 Housing Voucher program, which provides roughly 4,900 vouchers annually, yet has nearly 3,200 applicants on its Housing Choice Voucher waiting list.

While I approach today's hearing with an open heart and mind, I believe any long-term approach to public housing reform needs to be undertaken with care and consideration for all program beneficiaries. To meet this requirement, I believe a hold harmless mechanism that would protect families from cuts in the future ought to be considered as part of any future authorizing legislation.

Mr. Chairman, I thank you very much. I yield back the balance of my time.

[The prepared statement of Hon. Wm. Lacy Clay follows:]

STATEMENT OF CONGRESSMAN WM. LACY CLAY
HEARING ON HUD PUBLIC HOUSING PROGRAMS
FEBRUARY 15, 2006

Mr. Chairman, let me begin by thanking you for starting of this session with a review of our nation's public housing programs. This topic is of significant importance to all of our constituents, from Dayton to St. Louis and everywhere in between.

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these units are not suitable for use because of modernization or demolition activities, and the average age of a public housing building is 38. Complicating matters is the strain on its Section 8 Housing Voucher program, which provides roughly 4,900 vouchers annually, yet has nearly 3,200 applicants on its Housing Choice Voucher waiting list.

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Thank you, again, Mr. Chairman, and I yield back.

Mr. TURNER. Thank you, Mr. Clay.

We will now start with the witnesses. Several witnesses have kindly prepared written testimony which will be included in the record of this hearing. The witnesses will notice that there is a timing light at the witness table. The green light indicates that you should begin your prepared remarks, and the red light indicates that your time has expired. The yellow light will indicate when you have 1 minute left in which to conclude your remarks.

It is the policy of this committee that all witnesses be sworn in before they testify. If the witnesses would please rise and raise their right hands.

[Witnesses sworn.]

Mr. TURNER. Please let the record show that all witnesses have responded in the affirmative.

I want to thank each of you again for the time that you are taking to be here, both in the preparation that it took and the time that you are taking out of your schedules.

This committee is just beginning its process of looking at the issues of public housing. Last year we focused on CDBG and brownfields and brownfield redevelopment, holding over 5 hearings, both in Washington, DC, and field hearings on the issue of CDBG and prospects for its reform and to preserve that program, and then also brownfields, how we might be able to assist communities, making sure that they have more effective tools for the redevelopment of abandoned factory sites.

This is a beginning process so it is very important that we begin with each of you because you come to the table with significant knowledge in what has occurred in the past and where we have fallen short in the past, and a vision of what we might need to do in the future. So I appreciate you coming and sharing that with us. As I was telling Rick Lazio, that each of you have come to contribute to our to-do list, and we greatly appreciate the skill and knowledge that you are going to bring to the table to permit us to do that.

With that, I would like to begin with Rick Lazio.

STATEMENTS OF RICK A. LAZIO, EXECUTIVE VICE PRESIDENT, GLOBAL GOVERNMENT RELATIONS AND PUBLIC POLICY, JPMORGAN CHASE BANK; HENRY CISNEROS, CHAIRMAN, CITYVIEW, FORMER SECRETARY OF HUD; DAVID G. WOOD, DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENTS, GOVERNMENT ACCOUNTABILITY OFFICE; AND RENEE LEWIS GLOVER, FORMER COMMISSIONER, MILLENNIAL HOUSING COMMISSION, CHIEF EXECUTIVE OFFICER, ATLANTA HOUSING AUTHORITY

STATEMENT OF RICK A. LAZIO

Mr. LAZIO. Thank you, Mr. Chairman. I am delighted to be here. I want to congratulate you for assembling two wonderful panels, people that I have had the pleasure of working with before, and I am sure they are going to be able to provide great insight into the current state of housing policy in America. I also want to acknowledge Congressman Clay. It's wonderful to see you again, and I

thank you for the opportunity and the respect you show for showing up for this.

I thought I would, as I said, dispense with the written testimony. My pal here, Henry Cisneros, is kidding me a bit, because he is pushing this timer in my face. I said, "Was this always this uncomfortable?" He said, "Yeah." Did we saw off the legs or—[laughter]—I have great respect for the people who have testified in the past in front of my committee, and I want to begin by acknowledging a really terrific, ideal partner, and that was Henry Cisneros. It seems almost quaint in this era to have a Republican chairman and a member of the Democratic administration really bond the way I would like to think that we did. But it's been a great relationship. I have tremendous respect for him, and I'm sure would not have been able to accomplish what we did accomplish without his strong support and leadership. So it's been a loss for the country not to have him in public service.

When I was elected we were in the minority, and having been in the minority and the majority, I would say that being in the majority is more fun, but 2 years later the Republicans did sweep into the majority, and one of the great advantages of getting the gavel as housing chairman was not to really have any history, any partisan history. There was nobody's mess to clean up for. There was no doctrinaire, paradigm to try to fit into, per se, which was an advantage in terms of having a clean slate from which to work.

The second major advantage was that there was a sense of urgency and a general sense of consensus, I think, that there were fundamental problems and challenges affecting public and assisted housing. That created the imperative to work to try and have a more fundamental reform, which is in fact what we did.

The last advantage that I had was to be given the gift of time. At the time I took the gavel, there were calls on both sides of the aisle for either a dismantling of HUD or dismantling of public housing and a vouchering out of public housing, and I was given time by the then-Speaker Newt Gingrich, to learn and listen and go out in the field which is exactly what I did, and I would strongly recommend to this committee, to be a good listener, to go out into the field and listen to the tenants, listen to the people who were struggling with these issues every single day. We'd airlift in and presume to know the answers, and in fact, we really didn't know the answers, hardly knew what questions were the right questions to ask to being with, but we got there. Places like Desire and New Orleans, or Robert Taylor Homes and Cabrini Green, and places from Brownsville and New York, to St. Louis and parts west, and that informed us greatly.

I was committed to take time to listen, and what I saw and heard was that tenants wanted clean, safe, healthy housing. They wanted a place where if they had children they could raise them and have the confidence that they had in the environment where those children could have the opportunities that perhaps they did not have. Seniors wanted to live without being harassed. The people expected to have the light bulbs work, the doors on hinges, and the windows intact. Public housing officials wanted more flexibility. They wanted to be trusted to do their job. They wanted to spend less time hassling with trying to fit into programs, that while well

intentioned, had grown to be so prevalent that their very local needs were not always met.

So there were two thrusts to the reform that we came back with. One was really what I call more of a group of management reforms, beginning with consolidating literally dozens of programs, again, that were well-intentioned programs, but which didn't fit the needs of every single housing authority, and to consolidate them into two major grants, one a capital, and one an operating grant program for the Federal Government to fund, in that sense providing more flexibility again for housing authorities to address those needs.

Then there were other things, for example, like repealing the one-for-one replacement rule, which again, while well intentioned, had the perverse impact of keeping dysfunctional units, debilitated units online, still costing housing authorities to maintain them because they didn't really have the money to replace them, or the site-based waiting list for public housing, so that a senior who wanted to stay in the same neighborhood that they had lived their whole life could go on a waiting list for just that one building as opposed to having to take the first unit that came up. And these operational management reforms, I think, were generally and fairly widely supported at the time.

A second group of reforms had to do with creating a more dynamic atmosphere, an atmosphere where people who had the capacity to have a job and to earn an income could do so without having disincentives. So we provided more flexibility in terms of the income targeting to create more mixed income to provide more sustainable development, but also provide the opportunity for there to be more role models for people in these buildings, so that when a job became available that you could hear from word of mouth, so that children could see that a parent gets up in the morning and goes to work, that we thought that was intrinsically positive, that we modified the Brooke amendment, which again, while well intentioned, setting rent at 30 percent of income, had the perverse impact of effectively having a marginal tax on anybody who wanted to work overtime or get a better job or get married to somebody who had a job. They would do the rational thing, which was either to work off the books, not an ideal situation, or to choose either not to get married or not to take that work opportunity. So we created a tenant choice so that tenants would either have a flat rent or they'd be able to rely on that same guarantee of having no more than 30 percent of their rent, their income as rent.

The goal was to empower tenant groups to allow them to be entrepreneurial. I remember, for example, in one of my visits at the Cabrini Green there was a tenant leader who talked about the fact that the basement had been dominated by drug dealers, that the tenants had been kicked out, and if they just had the authority, that they could come back, and they were going to do what they needed to do to help inform the law enforcement officials to kick out the criminals. But they wanted to put new lights in there. They wanted to clean the basement. They wanted to put washers and dryers in the area to service not just that building, but other buildings. But there was no incentive to do that because if they actually earned money because of that, that money would go back out of the building, and so we sought to change the law so that they could

do that, that we could empower again local tenant groups to have more decisionmaking.

If I think about it thematically, a lot of this had to do with devolving decisionmaking back to local communities, with a sense that communities each had distinct needs, and that housing, while we focused on it from a policy standpoint, was not all that there was, that for different groups, the disabled, people with AIDS, the seniors, they needed supportive services and they needed it onsite. We need to provide the flexibility for housing authorities and tenant groups to do that, that we needed to provide for a mixed income, and leveraging and private sector, public-private partnerships, because it wasn't just about housing, it was just as much about making sure that people could live in a place where they could have access to a good education for their children, where they can get to transportation and get a job, where they can live in a safe place without fear of being harassed or being victims of crime, where they could go and get decent banking services and decent prices for groceries, and not have to pay more than more affluent people in the suburbs were paying.

And so we came to understand that we need to provide the flexibility. I look at the 1998 act and its predecessor, the 1996 bill, and I think we perhaps started our work, but we certainly haven't finished it. The need to continue to marry resources and leverage up and use HUD and private sector resources to focus on bricks and mortar and to get other agencies within the Federal Government to address some of the softer needs, but just as important, needs of supportive services, should be a high priority I think for this committee and for this Congress.

I will sort of wrap up by saying that I believe that our debate on the floor was a contentious debate. It was one of the longest debates I think that we had during that Congress, but in the end, over 100 Democrats supported the bill, and they supported the 1996 bill. As I was saying to Secretary Cisneros, it seems almost quaint now to have that level of bipartisanship where Republicans and Democrats were able to address a problem and look at a solution that reflected the values of the two great parties, of compassion and understanding, or addressing needs of the poor, of responsibility and work and family, and both parties could walk away and think that they had done something important for the community. My hope is, with appropriate levels of funding and with continued tweaking, that we will get there. And I hope that this was a modest but important step forward to achieve that goal.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Lazio follows:]

Written Testimony of the Honorable Rick Lazio before the House Government Reform Subcommittee on Federalism and the Census February 15, 2006

Chairman Turner, Ranking Member Clay, Members of the Subcommittee, my name is Rick Lazio, and I am here today before the Subcommittee in my personal capacity. Thank you for inviting me to testify on "Living in America: Is Our Public Housing System up to the Challenges of the 21st Century," and I appreciate your interest in a topic that has been of tremendous importance to me for more than a decade. It is gratifying to see the Subcommittee coming together in a bipartisan fashion to examine whether America is prepared to ensure an adequate supply of safe, affordable housing for our communities in the coming years.

Reasons for Reform

H.R. 2, The Quality Housing and Work Responsibility Act of 1998,[1] represented the culmination of work that spanned several Congresses to reform public housing policy. In taking aim at an appallingly outdated public housing system, many proponents of public housing reform shared an overarching goal of addressing poverty more broadly and a recognition that by historically addressing housing programs in a vacuum, the federal government had done little to address underlying causes of poverty. H.R. 2 was designed to bring about a true transformation of the role that public housing assistance plays in helping to lift people out of poverty, rather than entrench them in it.

By the 1990s, it was clear that a full review and revision of public housing policy was necessary. The 1937 Housing Act, which had formed the basis of housing policy for 60 years, was passed during the Great Depression to provide work for unemployed craftsmen and to shelter urban factory workers. By the 1980s, it had come to represent the worst of "one size fits all" solutions to low-income housing needs. Not only had the housing quality become dangerously inadequate, but outdated public policies had perversely worked to ensure that residents remained trapped and isolated in a culture of poverty.

In the worst examples, the level of unemployment among public housing residents was exceeded only by their hopelessness. I saw this firsthand when I traveled to the then-notorious "Desire" housing development in New Orleans during a 1996 Congressional fact-finding tour. Violent crime at the complex was so severe that my taxi driver refused to take me into the development for fear that I—and he—would be harmed. He had good reason to be concerned: "Desire" and the nearby "Florida" housing development had—decades after construction—achieved the dubious distinction of the highest murder rate in New Orleans, which itself had the highest murder rate in the nation.

[1] President Clinton signed the Quality Housing and Work Responsibility Act of 1998, P.L. 105-276, part of the VA/HUD FY1999 appropriations bill, on October 21, 1998.

On several occasions, I visited the legendary projects of Chicago, mile after mile of public housing, where groups segregated by race and class lived behind their grimy walls with little hope of escape. With all the good intentions behind public housing programs, it was clear to me and other reform advocates such as Chicago mayor Richard Daley, that the system was failing its constituents. It wasn't just Desire. It was Robert Taylor, Cabrini Green, and numerous others in Chicago, Vaughn in St. Louis, Hayes and Walsh in Newark, New Jersey. In 1995, nearly 100 major Public Housing Authorities (PHAs) were considered "troubled" and many others had units in distress.

These searing visits inspired me to use my seat in Congress and my role as Chairman of the Subcommittee on Housing and Community Opportunity as a tool to work toward fundamental reform.

The goal seemed deceptively simple: to provide temporary, decent affordable housing to Americans in need; to locate the housing in communities that would provide opportunity and inspire residents toward economic independence; and to require accountability from both residents and public housing authorities. It was our hope that by reducing the concentrations of poverty and crime under the old system, we would at the same time ensure that new generations of Americans who happened to live in public housing did not find themselves trapped in an endless cycle of poverty and dependence. By introducing the concepts of mixed-income housing, government and individual accountability, private-public partnerships and local empowerment, we believed that we could truly transform public housing.

Direction of Reform

Despite the change in Congress in 1994, a large bipartisan group in Congress and the Clinton Administration saw eye-to-eye on the need for reform and possible solutions. And the ultimate bill reflected both Republican and Democratic priorities: decentralization, flexibility, individual responsibility and meaningful cost-benefit analysis on the one hand and preserving or improving public housing stock, maintaining HUD, and providing needed services to residents on the other. To be sure, we spent significant time engaged in productive and intense committee and floor debate over the reforms. And as a result, our reform plan improved public and subsidized housing while providing more choices and chances for upward mobility among residents.

The reforms divided into two major areas. The first can be loosely described as public housing management. The second focused on altering the incentive structure for residents of publicly subsidized housing.

Public Housing Management

PHAs had long complained of a hodgepodge of regulations and programs in a system so complex that it was all but impossible to provide quality housing to tenants. To change this, we eliminated all of the ancillary programs and combined them into two funds: the operating fund and the capital fund. We consolidated disparate sub-accounts into a single

fund for operating the housing projects. Likewise, we consolidated various funding streams into a single flexible capital fund-stream that could be leveraged more quickly to implement renovations and new construction. In addition, we gave PHAs greater management flexibility to remove regulatory impediments to providing safe and secure housing.

One of the biggest impediments to eliminating exhausted public housing stock was the "one to one" provision that required each unit of public housing taken offline to be replaced by another unit. Often entire blocks of units were left in horrendous condition because the PHA could not take them offline for lack of replacements. Furthermore, the funds to replace them simply did not exist under the old system. In the same way, entire projects that had become substandard also fell victim to this rule. Repeal of this single provision immediately paved the way for eliminating the most dangerous and substandard public housing in existence at the time. Under the bill, PHAs also became free to reorganize how they provided housing assistance. With the flexibility of the capital fund and expanded use of vouchers, most PHAs chose to strike a new balance between refurbishing existing projects, building new, more modern designs, and expanding housing options through vouchers.

H.R. 2 also provided greater flexibility to prospective public housing tenants by eliminating mandatory community-wide waiting lists. Under the old system, mandatory lists forced people into the first housing available or they would drop to the bottom of the list. The new site-based lists would give people more choice about where they would live. It also gave PHAs more information about the types of housing units in greatest demand and which units needed improvement.

Incentive Structure and Practicality

Management changes were only part of what was required to transform public housing. The incentive structure also needed reform. While public housing residents suffered with quality and safety issues, they also struggled under rules that penalized personal initiative and did not reward personal responsibility.

Originally designed to be a stepping-stone for the working poor, public housing had instead become a permanent home for those with very low or no income. The well-intentioned "Brooke Amendment" exacerbated this situation. The 1969 Amendment was designed to ensure that PHAs could not charge unaffordable rents by capping rents at 25% of income (the ceiling was later increased to 30%). In a community of working class people where most already had jobs, the concept was at first seemingly beneficial, since it ensured that rents would remain low relative to current income.

However, as the public housing population shifted to the unemployed, and the underemployed, Brooke became an impediment to individual initiative and in many ways, responsible behavior. Individuals who chose to work, returned to work, or married a working individual were hit with a 30% tax on that new income stream in the form of a higher rent tied to their new income. In essence, Brooke became a steep "opportunity

tax" that, when combined with income and FICA taxes and other associated costs, made work a far less appealing proposition. In many communities this led to pervasive, extreme poverty along with a variety of other social ills. Also, the incentive to earn money under the table increased since not only would the income not be taxed, but it would also be omitted from the rent equation.

H.R. 2 gave tenants a choice between an income-based rent or a flat rent set by the PHA, so as not to discourage families who would attempt to become economically self-sufficient through employment. People could choose the lower of the two rents depending on individual circumstances.

But rule-based disincentives weren't the only influence damaging the social fabric of public housing communities: the physical isolation of many public housing projects was another. The lack of jobs, services and positive role models both caused and reflected the despair of many PHAs. As a result, H.R. 2 attempted to de-concentrate poverty by creating environments where jobs and positive role models mixed with needy families and residents to create community stability. The goal was to create social dynamism and the upward mobility that comes with it.

All of us need to access to services to be productive and secure. This is particularly true for the elderly and the disabled who need access to health services, food, and other essentials. Families need access to those same services as well as to education and jobs. The expansion and simplification of vouchers in H.R. 2 provided PHAs with greater flexibility in meeting the needs of tenants by allowing families more choice in where to live. In areas with fluid rental markets, families could choose to live nearer to work or to a good school.

However, we also recognized that for special needs populations or in tight rental markets, we had to maintain more of a project-based approach. In that case, we turned to options that encouraged the provision of services or the development of mixed-use projects near bus routes and other service providers.

Implementation

I am not an expert on the implementation of this reform. You have assembled an impressive group of panelists who can address that in some detail. Nevertheless, my impression is that a consensus has developed that the reforms have been generally positive. Last year, I sat down with a young documentarian who was working on a piece about the Robert Taylor Homes and the impact of our housing reforms. As he explained to me, he began the process with some skepticism. However, after having witnessed the hopelessness of the Robert Taylor Homes firsthand, the difficult transition of some of the residents during the construction of new mixed-use and mixed-income developments, and the subsequent improvement in public housing communities, in the end he supported our reforms. I know that's hardly scientific, but it is gratifying to me to hear how the results of our efforts have changed people's minds—and lives.

Moving Forward

I'm proud of my contribution to the reform effort, but more needs to be done. As the Congress deliberates over the next stage of reform and modernization, the demographic shift caused by the aging of the Baby Boomers needs to be front and center. Social Security and Medicare are not the only federal programs that will have to adjust. The aging wave will significantly change the composition and needs of public housing residents and present different challenges than those we faced in the 1990's.

As we discovered, grouping large numbers of the unemployed and those with very low or no income in large projects proved to be a disaster and was a major impetus for reform. The social implications of a high concentration of the elderly or disabled, however, are less problematic. Provided that quality units and services are available, locating people who need those services in a single location may in fact make the delivery of those services far easier and more efficient. Provided that seniors can live relatively independently and receive the services that help them do so, quality public housing can play an important role in meeting the needs of a country with a growing senior population.

According to the Council of Large Public Housing Authorities, more than half of public housing tenants are elderly or disabled.[2] Formulating policy for disabled residents should recognize that income mobility becomes less important than ensuring access to adequate services and a public housing environment that is conducive to their needs. Disabled and senior residents are less likely to achieve the same mobility out of a particular income class than society in general.[3] Additional efforts should keep these facts in mind.

Once again, I thank the Subcommittee for its attention to the continuing and ever-changing challenges of public housing, and also for its commitment to ensuring that America provides safe, decent, affordable housing to those in need.

Thank you.

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[2] http://www.clpha.org/page.cfm?pageID=3

[3] Though for the disabled, legislation like the Work Incentives Improvement Act was designed to help them become more self-sufficient.

Mr. TURNER. Mr. Secretary.

STATEMENT OF HENRY CISNEROS

Mr. CISNEROS. Thank you, Mr. Chairman. Let me begin by thanking you and Congressman Clay for your diligence in digging into a subject that's frequently not studied because it doesn't generate headlines and it requires a lot of digging into difficult things, but your work as a former mayor of a great midwestern city, and Congressman Clay's representation of a city in which some of the breakthrough moments for public housing have occurred, Pruitt-Igo on the negative side, and yet some of the Hope VI developments in St. Louis that are models for the entire country.

I also want to thank Congressman Lazio. What you saw here in his statement is the same passion and conviction he brought to the debate in the 1990's, and literally millions of lives have been touched by Rick Lazio's work and leadership.

Rick, thank you for just being a great public servant and a great guy.

I also want you to know, Mr. Chairman, that you have in Renee Glover, the best public housing administrator in the country today, doing the best job for her city. Atlanta, not only has public housing has been transformed, but the city has been transformed by the work that Renee has begun there.

As Congressman Lazio mentioned—and I am going to call him Congressman Lazio for the rest of his life, no matter what else he's doing—this is a time of reform for public housing. We tried to build on the reforms of my predecessor, Jack Kemp, our own work and that of Secretary Cuomo and the Clinton administration, and now Secretary Jackson, who brings the unique perspective of the only HUD Secretary who's ever been the director of a public housing agency, and in fact, he's been the director of several. We're at a point of convergence in which ideas and experiences and lessons are coming together from the experience of the 1990's and the early years of this decade.

Among the reform lessons of the last decade, witnessed by four HUD Secretaries, are the following. First, we know that reforms in physical design matter, the scale of buildings, the trading off of the high rises for townhomes, the creation of a sense of defensible space and privacy for families instead of having to walk the hallways of those buildings to have their own entrances. The new urbanists have made a contribution in walkability and bringing the street grid back to the developments. And the use of the physical redesign in conjunction with Section 8, so that we have less dense density in families who live in Section 8 settings, that's one set of reforms that's been very powerful.

Another set of reforms have been the roles of private investment in public housing, the kind of efforts that Hope VI ushered in, where market mechanisms were introduced, not just on the projects that are Hope VI, but into the thinking of the authorities themselves. And as Congressman Lazio mentioned, the importance of mixed income in the resident base has been very important to the residents and to the communities.

And perhaps the most important reforms have been the way public housing authorities think of themselves. Most now think of

themselves as among the biggest real estate entities in a city. They have more land, more apartments or units, more management responsibility than almost any other real estate entity in town. The best of them, like Renee in Atlanta, or in Seattle, where the Seattle Housing Authority, one of the highest graded in the country, owns 4,500 unsubsidized apartments that they have acquired, apartments in private apartment buildings, that function like large multi-family units. And they make those work for the families that have to be subsidized, by cross-subsidizing and creating really attractive settings. The really sophisticated housing authorities now use low-income housing tax credits, new market tax credits, State and local bonds, capital grants, private investment, foundation support, local trust funds, State programs and generated revenue streams of their own from their private market activities.

So it is a whole new ball game. It really is a time of reform. It's appropriate that we would be before the Committee on Government Reform. We have better physical settings, mixed income opportunities for residents, more market type mechanisms and incentives at play, and yet, all at the service of trying to put people who make less than 30 percent of area median income into housing. As I say, a whole new ball game.

I believe we're going in the right direction, and that a lot of important ideas are converging. The asset-based focus is correct to provide project-based accounting and budgeting. Communities that can function more like private multi-family properties is the right thing to do.

It will also require—and this is important that the committee note—greater flexibility, because we cannot micromanage to the project level as some HUD guidance continues to do. There's an inherent contradiction in saying we're going to a project-based system, and yet continuing the holdover command and control regulations that the bureaucracy wants to impose. The right approach is to set standards and hold authorities to standards, but give them the flexibility to work.

Finally, and most importantly, I think, it requires the continuing provision of adequacy of resources. It is a fundamental reality, even in a project-based world, that housing authorities cannot raise rents above the 30 percent of adjusted family incomes, so they need adequate operating subsidy, because even going to a different structure, they can't take care of the poorest without adequacy of operating subsidies.

Again, even in a project-based framework, they can't take money from projects to fund central office operations if there's not excess cash coming off of the projects. So for a period of time, the Federal Government will continue to provide significant operating subsidy resources. It's my understanding that the estimate for what it takes to make this transition is about $4 billion this year, and the 2007 budget allows for about $3½ billion, so about half a billion off.

Similarly, on the capital front, with the elimination of Hope VI, it means inadequate production of new affordable units, maybe the end of some of the physical reforms that I've been describing, if the capital subsidies are not adequate. We made tremendous progress, meaningful reforms. I think we can see that we're headed down a

path that, frankly, could not have been foreseen. Not even Jack Kemp, my predecessor, who's a great friend, in his most exalted visions of what public housing could be, could see where we're headed, very positive directions. We've learned some important lessons, but we must stay the course of reform, and that includes a recognition of flexibility and the recognition of adequacy of resources in this time.

Millions of American families will live better lives because of these reforms, and their children will have a platform for the self-reliant lives that we want for them. That's what public housing traditionally has meant, and it can mean that again for families.

Thank you.

Mr. TURNER. Thank you, Mr. Secretary.

Mr. Wood.

STATEMENT OF DAVID G. WOOD

Mr. WOOD. Thank you, Mr. Chairman. GAO is often asked or mandated by the Congress to examine specific aspects of the public housing program. My statement today is based on a number of reports that we've issued in the last few years. Generally, our work involves examining how well HUD administers the program, including its oversight of local housing agencies. In carrying out our work, we sometimes survey local agency officials or visit public housing developments for firsthand observations.

In doing so we've identified challenges faced by both HUD and local agencies in fulfilling program requirements.

In keeping with the theme of your hearing, I'm going to use my time to briefly highlight our work on the Hope VI program for revitalizing severely distressed public housing. As Secretary Cisneros noted, in several ways this program represents an alternative to traditional public housing projects. It's designed to allow Federal and private funding to be combined to produce mixtures of public, other subsidized and/or market rate housing units. The program may also involve local nonprofit and community groups, particularly in the provision of supportive services such as job training. In the year beginning in November 2002, we issued three reports examining various aspects of this program.

For the first report we examined the extent to which public housing agencies had leveraged their Hope VI grants with other funds. We found that the extent of leveraging had generally increased over the life of the program, from about 58 cents for every Hope VI dollar in 1993, to about $2.63 for every Hope VI dollar in 2001. The average over the period was about $1.85. Of that amount, 79 percent, however, was leveraged from other Federal sources, including equity provided to the low-income housing tax credit program. Of the non-Federal portion, 9 percent was from State or local governments, and 12 percent was from the private sector. We also found that housing authorities had leveraged funds to provide community and supportive services, a total of about $295 million between 1993 and 2001. This leveraging had also increased over the life of the program and represented about 41 percent of all funds allocated for supportive services.

Our second report examined HUD's oversight and management of the program. Among other things, we found that the majority of

local housing agencies had not met deadlines in their grant agreements. For example, of 42 grants for which the time for construction had expired, only 3 had actually completed construction. We recommended that HUD ensure that its field offices perform required annual project reviews and that the agency develop meaningful enforcement policies. HUD agreed with those recommendations and took corrective action.

Our third report in November 2003 examined program impacts on existing residents of project sites and on surrounding neighborhoods. We found that of the 49,000 residents displaced from sites that had received Hope VI grants through 2001, about half relocated to other public housing, about one-third used vouchers to rent private housing, and the rest had moved without giving notice or had been evicted.

Overall grantees expected about 46 percent of original residents to return to the revitalized sites, but that percentage varied greatly among sites. Because of the lead time required, and other factors, we limited our examination of potential neighborhood impacts to the 20 sites that had received grants in 1996. We found that neighborhoods near those sites had generally experienced improvements, according to changes and measures such as education, income, housing values and crime. In four locations we also compared changes in these measures to those in similar nearby neighborhoods with public housing, but without a Hope VI project. With some exceptions, we generally found greater positive changes in the neighborhoods with Hope VI projects. However, because many other factors can affect the measures we were using, we could not determine the extent to which Hope VI alone contributed to the changes.

We noted that several studies conducted by universities and others also showed that the neighborhoods in which Hope VI sites are located, had experienced improvements in key indicators.

Mr. Chairman, that concludes my prepared statement. I'll be glad to answer any questions that you or other Members may have.

[The prepared statement of Mr. Wood follows:]

United States Government Accountability Office

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Testimony
Before the Committee on Government Reform, House of Representatives

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PUBLIC HOUSING

Information on the Roles of HUD, Public Housing Agencies, Capital Markets, and Service Organizations

Statement of David G. Wood, Director
Financial Markets and Community Investment

GAO-06-419T

February 15, 2006

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Highlights

Highlights of GAO-06-419T, a testimony to the Committee on Government Reform, House of Representatives

PUBLIC HOUSING

Information on the Roles of HUD, Public Housing Agencies, Capital Markets, and Service Organizations

Why GAO Did This Study

Under the public housing program, the Department of Housing and Urban Development (HUD) and local public housing agencies (PHA) provide housing for low-income residents at rents they can afford. Today, over 3,000 PHAs administer approximately 1.2 million public housing units throughout the nation. First authorized in 1937, the program has undergone changes over the decades. The Quality Housing and Work Responsibility Act of 1998 increased managerial flexibility but also established new requirements for housing agencies. Some observers have questioned the program's ability to provide quality, affordable housing to the nation's neediest families.

This testimony, which is based upon a number of reports that GAO has issued related to public housing since 2002, discusses the roles of (1) HUD (2) public housing agencies, (3) capital markets, and (4) community services organizations in the public housing system.

What GAO Found

Traditionally, HUD's role has been to provide public housing agencies with funding, guidance, and oversight. HUD provides both capital and operating funding. In addition, HUD has provided selected agencies with grants under the HOPE VI program to demolish and revitalize severely distressed public housing and provide community and supportive services. HUD provides guidance to PHAs to supplement its regulations and explicitly convey required program policies and procedures. Based on past work, GAO has made recommendations to HUD to improve the clarity and timeliness of its guidance to public housing agencies and to improve its oversight of the program.

Public housing agencies are responsible for managing public housing in accordance with HUD regulations and requirements. They are also required to develop and submit plans detailing the agency's goals and strategies for reaching these goals. Further, public housing agencies that receive HOPE VI grants are required to provide residents with supportive services. GAO's work has identified challenges that the agencies face in carrying out their responsibilities, including difficulty with HUD's data systems and lack of resources for hiring and training staff.

GAO has not reviewed the extent to which capital markets can play a role in the public housing system, but its examination of the HOPE VI program and other work has identified examples of leveraging federal funds with funds from a variety of other public and private sources. HUD encourages public housing agencies to use their HOPE VI grants to leverage funding from other sources to increase the number of affordable housing units developed at project sites. The examples GAO has found include private funding for both capital projects and the provision of supportive services.

Public housing agencies may utilize community service organizations to assist public housing residents. Work GAO has done on federal housing programs that benefit the elderly, as well as recent work focused on public housing for the elderly and residents with disabilities, identified examples of supportive services being offered or provided to public housing residents. Such services may be provided through HUD grants as well as through partnerships between public housing agencies and community-based nonprofit organizations.

www.gao.gov/cgi-bin/getrpt?GAO-06-419T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact David G. Wood at (202) 512-8678 or woodd@gao.gov.

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to be here today as the Committee considers the nation's public housing. The Public Housing Program was established in 1937 to provide decent and safe rental housing for low-income families. Congress annually appropriates funds for the program, and the Department of Housing and Urban Development (HUD) allocates them to local public housing agencies (PHA). Today, over 3,000 PHAs administer approximately 1.2 million public housing units throughout the nation under HUD's oversight.

My statement is based on a number of reports that we have issued related to public housing, primarily since 2002. The topics of these reports have included (1) how HUD assesses PHAs' performance and the steps it takes to remedy poor performance; (2) the agencies' experiences with reforms instituted by the Quality Housing and Work Responsibility Act (QHWRA) of 1998; (3) various aspects of the HOPE VI program for revitalizing severely distressed public housing; and (4) most recently, the condition of public housing for the elderly and disabled. As you requested, my statement discusses the roles of (1) HUD (2) public housing agencies, (3) capital markets, and (4) community services organizations in the public housing system. In preparing this information, we excerpted and summarized information from reports issued between 2002 and 2005. A list of these reports appears at the end of this statement.

In brief:

- Traditionally, HUD's role has been to provide PHAs with funding, guidance, and oversight. HUD provides both capital and operating funding. In addition, HUD has provided selected agencies with grants under the HOPE VI program to demolish and revitalize severely distressed public housing and provide community and supportive

services. HUD provides guidance to PHAs to supplement its regulations and explicitly convey required program policies and procedures. Based on our past work, we have made recommendations to HUD to improve the clarity and timeliness of its guidance to PHAs, and to improve its oversight of the program.

- PHAs are responsible for managing public housing in accordance with HUD regulations and requirements. They are also required to develop and submit plans detailing the agency's goals and strategies for reaching these goals. Further, public housing agencies that receive HOPE VI grants are required to provide residents with supportive services. Our work has identified challenges that the agencies face in carrying out their responsibilities, including difficulty with HUD's data systems and lack of resources for hiring and training staff.

- While we have not reviewed the extent to which capital markets can play a role in the public housing system, our examination of the HOPE VI program and other work has identified examples of leveraging federal funds with funds from a variety of other public and private sources. HUD encourages PHAs to use their HOPE VI grants to leverage funding from other sources to increase the number of affordable housing units developed at project sites. The examples we have found include private funding for both capital projects and the provision of supportive services.

- PHAs may utilize community service organizations to assist public housing residents. Work we have done on federal housing programs that benefit the elderly, as well as recent work focused on public housing for the elderly and residents with disabilities, identified examples of supportive services being offered or provided to public housing residents. Such services may be provided through HUD grants

as well as through partnerships between PHAs and community-based nonprofit organizations.

Background

Under the U. S. Housing Act of 1937, as amended, Congress created the federal public housing program to provide decent and safe rental housing for eligible low-income families, the elderly, and persons with disabilities. HUD administers the program with PHAs, typically local agencies created under state law that manage housing for low-income residents at rents they can afford. Agencies that participate in the program contract with HUD to provide housing to eligible low-income households and, in return, receive financial assistance from HUD. Public housing comes in all sizes and types, from scattered single-family houses to high-rise apartments.

In 1992, Congress established the HOPE VI program, which is administered by HUD. The program provides grants to PHAs to rehabilitate or rebuild severely distressed public housing and improve the lives of public housing residents through supportive services. In 2003, Congress expanded the statutory definition of "severely distressed public housing" for the purpose of HOPE VI to include indicators of social distress, such as a lack of supportive services and economic opportunities. Between fiscal years 1993 and 2005, Congress appropriated $6.8 billion for the HOPE VI program.

In addition to managing public housing, some PHAs administer other HUD programs that provide housing assistance for low-income households. Under the Housing Choice Voucher Program, about 2,500 participating PHAs enter into contracts with HUD and receive funds to provide rent subsidies to the owners of private housing on behalf of assisted low-income households. In addition, a few PHAs assist in administering HUD's project-based rental assistance programs, through which HUD pays subsidies to private owners of

multifamily housing that help make this housing affordable for lower income households.

HUD Provides Funding, Guidance, and Oversight for Local PHAs

Traditionally, HUD has provided funding to local PHAs to manage the public housing system, as well as for the revitalization of severely distressed public housing. HUD's role has also included providing PHAs with guidance and overseeing their performance, including providing technical assistance.

Funding and Guidance

HUD provides funding to housing agencies through two formula grant programs: the Operating Fund and the Capital Fund. The Operating Fund provides annual subsidies to housing agencies to make up the difference between the amount they collect in rent and the cost of operating the units. The Capital Fund provides grants to PHAs for the major repair and modernization of the units. In addition, HUD has provided selected agencies with grants under the HOPE VI program to help housing agencies replace and revitalize severely distressed public housing with physical and community and supportive service improvements. As shown in table 1, this HUD funding has totaled about $31.5 billion over the past 5 fiscal years.

Table 1: Appropriations for the Public Housing Program for Fiscal Years 2002-2006

(millions of dollars)

	Fiscal year					Total
	2002	2003	2004	2005	2006[a]	
Operating Fund	$3,495	$3,577	$3,579	$2,438	$3,564	$16,653
Capital Fund	2,843	2,712	2,696	2,579	2,439	13,269
Hope VI	574	570	149	143	99	1,535
Total	6,912	6,859	6,424	5,160	6,102	**31,457**

Source: GAO.
[a]Budget totals include the 1.0 percent across the board rescission to nondefense discretionary resources provided in FY 2006 regular appropriations acts per P.L. No: 109-148.

In exchange for capital and operating funding, PHAs enter into annual contributions contracts. According to this written contract, HUD agrees to make payments to the PHA and the PHA agrees to administer the housing program in accordance with HUD regulations and requirements. HUD provides guidance to PHAs to supplement its regulations, and explicitly convey required program policies and procedures.

Some of our past work has shown a need for HUD to improve the clarity and/or timeliness of its guidance to housing authorities. For example:

- For our 2002 review of HUD's and housing agencies' experiences in preparing annual plans required by the Quality Housing and Work Responsibility Act of 1998 (QHWRA), we surveyed HUD field offices

and interviewed eight PHAs to gain insight into their experiences.[1] Respondents reported that HUD-provided guidance on the plan process was less than adequate. One respondent reported that headquarters guidance was delayed in getting to field locations, while another reported that changing rules made it difficult to know what the PHAs should do and what the field locations should look for in reviewing plans. However, some housing agencies balanced their comments with positive remarks; for example, one large agency told us that HUD had improved the template for fiscal year 2001. HUD provided a desk guide to assist housing agencies and field locations in fiscal year 2001, in an effort to improve the planning process.

- In surveying the directors of PHAs on their experiences with a number of QHWRA housing reforms, we again found late and unclear guidance from HUD.[2] Public housing directors reported having to spend more administrative time in implementing reforms, partially due to a lack of clear guidance from HUD.

- In reviewing HUD's management of the HOPE VI program, we found that the department's guidance on the role of field offices was unclear, and, as a result, some field offices did not seem to understand their role in HOPE VI oversight.[3] For example, some officials stated that they had not performed annual reviews of HOPE VI projects because they did not think they had the authority to monitor grants. Based upon these findings, we recommended that the Secretary of HUD clarify the role of HUD field offices in HOPE VI oversight and ensure that the offices

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[1] *GAO, Public Housing: HUD and Public Housing Agencies' Experiences with Fiscal Year 2000 Plan Requirements,* GAO-02-572 (Washington, D.C.: May 31, 2002).

[2] *GAO, Public Housing: Small and Larger Agencies Have Similar Views on Many Recent Housing Reforms,* GAO-04-19 (Washington, D.C.: Oct. 30, 2003).

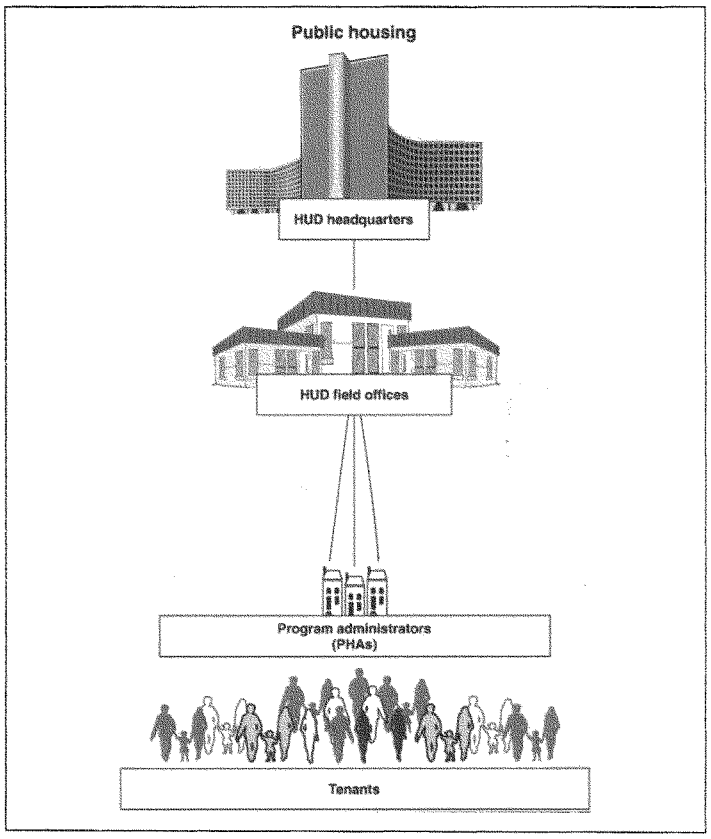
[3] *GAO, Public Housing: HUD's Oversight of HOPE VI Sites Needs to Be More Consistent,* GAO-03-555 (Washington, D.C.: May 30, 2003).

conduct required annual reviews of HOPE VI grants. HUD agreed with this recommendation and published new guidance in March 2004 that clarified the role of the HUD field offices and changed the annual review requirements.

Oversight and Technical Assistance

HUD is responsible for overseeing PHAs' overall performance and for helping agencies improve their performance (see fig. 1). In 1997, as a part of its 2020 Management Reform Plan, HUD instituted a new approach for evaluating PHAs' performance. The approach includes "scoring" each of several categories of performance, assigning each housing agency to a risk category, designating agencies as "troubled" if their scores are substandard and, in some cases, appointing receivers to actively manage the agencies. Also as a part of its oversight, HUD identifies housing agencies that need technical assistance. HUD's technical assistance involves activities such as training housing agency staff on how to use HUD systems or comply with reporting requirements.

Figure 1: HUD's Oversight Structure for the Public Housing Program



Sources: GAO (analysis); Art Explosion (images).

HUD uses the Public Housing Assessment System (PHAS) to evaluate public housing agencies' performance, while its Public and Indian Housing Information Center (PIC) risk assessment uses the PHAS score and information about funding and compliance issues to classify housing authorities as high, moderate, or low risk. PHAS is designed to evaluate housing agencies' overall performance in managing rental units, including the physical condition of units, soundness of agencies' financial operations, the

effectiveness of their management operations, and the level of resident satisfaction with the services and living conditions. HUD designed the PIC system to facilitate a Web-based exchange of data between PHAs and local HUD offices. PIC contains a detailed inventory of public housing units and information about them, including the number of developments and units, age of the development, and the extent to which apartment units are accessible for persons with disabilities. The system also tracks tenant (household) information, such as age, disability status, and income.

Our past work has identified opportunities for HUD to improve its oversight of housing agencies and it provision of technical assistance. For example:

- In 2002, we reported that the results of the PHAS and PIC systems were inconsistent.[4] Specifically, in comparing information in the two systems, we found that 12 of the agencies that HUD–using PHAS scores–had determined were "troubled" were classified in the PIC system as "low" risk. Accordingly, we recommended that HUD classify all troubled housing authorities as high risk to better ensure that they receive sufficient monitoring. HUD agreed with our recommendation and incorporated it into its risk-assessment system.

- In preparing a 2002 report on HUD's human capital management, directors of several HUD field offices told us that they lacked the staff to provide the level of oversight and technical assistance that the housing authorities need.[5] In light of this and other findings, we recommended that the Secretary of HUD develop a comprehensive strategic workforce plan. HUD subsequently hired a contractor to develop a Strategic Workforce Plan, which it completed in 2004. The

[4] *GAO, Pubic Housing: New Assessment System Holds Potential for Evaluating Performance*, GAO-02-282 (Washington, D.C.: Mar. 15, 2002).

[5] *GAO, HUD Human Capital Management: Comprehensive Strategic Workforce Planning Needed.* GAO-02-839 (Washington, D.C.: July 24, 2002).

plan includes analysis of current and future demand for staff and an analysis of the skills and competencies needed to accomplish tasks.

- In our October 2003 report, we noted that small agencies are more likely to require assistance with the day-to-day management of HUD programs and that HUD does not maintain centralized, detailed information on the types of assistance PHAs require or request from them.[6] HUD reported that it was developing a system that would allow it to collect such information in the future.

- In 2005, we reported on HUD's efforts to assess PHAs' compliance with its policies for determining rent subsidies.[7] We found that HUD had undertaken special reviews that, while useful, had suffered from a lack of clear policies and procedures and that the training and guidance HUD provided to PHAs on its policies for determining rent subsidies were not consistently adequate or timely. We recommended that the HUD Secretary (1) make regular monitoring of PHAs' compliance with HUD's policies for determining rent subsidies a permanent part of HUD's oversight activities and (2) collect complete and consistent information from these monitoring efforts and use it to help focus corrective actions where needed. HUD concurred with the recommendations but has not yet fully implemented them.

HUD can take enforcement actions against PHAs that it identifies, through PHAS, as being "troubled." For such agencies, HUD assigns a recovery team and develops a plan to remedy the problems. Initially, HUD may offer technical assistance and training, but it may also sanction an authority; for example, by withholding funding. Ultimately, HUD may place a PHA under an administrative receivership, in which a receiver replaces the top management

[6]GAO-04-19
[7]*GAO, HUD Rental Assistance: Progress and Challenges in Measuring and Reducing Improper Rent Subsidies.* GAO-05-224 (Washington, D.C.: Feb. 18, 2005).

of the agency. Additionally, some PHAs may have receivers appointed by judges (these are known as judicial receivers). In February 2003, we reported that under administrative or judicial receivers, nearly all of the 15 agencies under receivership showed improvement during their years of receivership, according to changes in HUD's assessed scores and/or other evidence.[8] The four PHAs under judicial receiverships generally had continued to demonstrate strong performance. While PHAs under administrative receiverships had also made improvements, some continued to demonstrate a significant problem with housing units being in very poor physical condition.

Finally, HUD's headquarters and field offices are responsible for overseeing PHAs' use of HOPE VI grants. In 2003, we reported that HUD's oversight of HOPE VI grants had been inconsistent due to staffing limitations, confusion about the role of field offices, and a lack of formal enforcement policies.[9] Based upon these findings, we recommended that HUD clarify the role of its field offices in HOPE VI oversight; ensure that the offices conduct required annual reviews of HOPE VI grants; and develop a formal, written enforcement policy to hold PHAs accountable for the status of their grants. HUD agreed with these recommendations and clarified the role of HUD field offices, changed the annual review requirements, and developed an enforcement policy which it shared with grantees in December 2003.

PHAs are Responsible for Managing Public Housing in Accordance with HUD Regulations and Requirements

Generally, PHAs are responsible for administering the public housing program in accordance with HUD regulations and requirements. Specifically, PHAs must provide decent, safe, and sanitary housing to their residents, manage

[8] *GAO, Public Housing: Information on Receiverships at Public Housing Authorities.* GAO-03-363 (Washington, D.C.: Feb. 14, 2003).

[9] GAO-03-555

their financial resources, meet HUD's standards for management operations, and address residents' satisfaction. Among other things, PHAs are responsible for ensuring that tenants are eligible for public housing and that tenant subsidies are calculated properly. PHAs are also required to develop both short- and long-term plans outlining their goals and strategies. PHAs that receive HOPE VI grants are subject to additional requirements associated with those grants; for example, the agencies must provide residents of HOPE VI sites with certain types of supportive services.

During the 1990s, PHAs gained broader latitude from HUD and the Congress to establish their own policies in areas such as selecting tenants and setting rent levels. The Quality Housing and Work Responsibility Act of 1998 (QHWRA), which extensively amended the U.S. Housing Act of 1937, allowed PHAs to exercise still more discretion over rents and admissions.[10] For example, QHWRA increased managerial flexibility by, among other things, making HUD-provided capital and operating funds more fungible, allowing housing authorities to sell some units to residents, and developing mixed-income housing units in order to bring more working and upwardly mobile families into public housing.

QHWRA also established new requirements for housing agencies, including, for example, mandatory reporting requirements in the form of a 5-year plan and annual reporting plans. Five-year plans include long-range goals, while annual plans detail the agency's objectives and strategies for achieving these goals, as well as the agency's policies and procedures. For our May 2002 report, we examined PHAs' experiences in preparing the first of their required plans.[11] We visited eight PHAs in the course of this work, and found that their views differed on the usefulness of the planning process and the level of resources required to prepare the plans, among other things. In June 2003, in

[10]Some of QHWRA's provisions went into effect when QHWRA was enacted on October 21, 1998, while other provisions took effect later.
[11]GAO-02-572

response to concerns that some QHWRA reforms were placing an undue burden on small housing agencies, HUD issued regulations allowing small PHAs to submit streamlined annual plans. We have not revisited this issue, and therefore cannot say how HUD or the housing agencies view the usefulness of the plans today.

QHWRA also required PHAs to implement a number of additional reforms that affect the Public Housing Program. For our October 2003 report, we surveyed PHAs to find out their views on 18 key changes brought about by QHWRA and to see if views differed among large, medium, and small agencies. Some agencies in each size category viewed both the five-year plan and the annual plan requirements as helpful to them in managing and operating their programs, although proportionately fewer small agencies had this view. We also found that agencies of all sizes reported spending more time on HUD-subsidized programs after QHWRA than before the reforms were enacted, in part because of increased reporting requirements, difficulties in submitting data to HUD, and lack of resources for hiring and training.

PHAs that receive HOPE VI grants to revitalize public housing must obtain HUD's approval for their revitalization plans and must report project status information to HUD. The agencies are also required to offer community and supportive services—such as child care, transportation, job training, job placement and retention services, and parenting classes—to all original residents of public housing affected by HOPE VI projects, regardless of their intention to return to the revitalized site. In our November 2002 report on HOPE VI financing, we found that housing agencies that had been awarded grants in fiscal years 1993-2001 had budgeted a total of about $714 million for community and supportive services.[12] Of this amount, about 59 percent were HOPE VI funds while 41 percent was leveraged from other resources. In our November 2003 report on HOPE VI impacts, we reported that limited HUD

data on 165 HOPE VI grantees awarded through fiscal year 2001 and additional information indicated that supportive services had achieved or contributed to positive outcomes.[13]

Private Capital Has Been Involved in Some HOPE VI Projects

While we have not reviewed the extent to which capital markets can be used with the public housing system, our reviews of the HOPE VI program have shown that some PHAs use HOPE VI revitalization grants to leverage additional funds from a variety of other public and private sources.

HUD encourages PHAs to use their HOPE VI grants to leverage funding from other sources to increase the number of affordable housing units developed at HOPE VI sites. Public funding can come from other federal, state, or local sources. Private sources can include mortgage financing and financial or in-kind contributions from nonprofit organizations. In our November 2002 report on HOPE VI project financing, we found that financial leveraging of projects had shown a general increase over time, and that PHAs expected to leverage—for every dollar received in HOPE VI revitalization grants awarded through fiscal year 2001—an additional $1.85 in funds from other sources.[14] Our report also noted that HUD had not reported annual leveraging and cost information about the HOPE VI program to the Congress, as it had been required to do since 1998. Consequently, we recommended that HUD provide annual reports on the program, including information on the amounts and sources of funding used at HOPE VI sites, to Congress. In response to this recommendation, in December 2002, HUD began issuing annual reports that include funding information.

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[12] *GAO, Public Housing: HOPE VI Leveraging Has Increased, but HUD Has Not Met Annual Reporting Requirement*, GAO-03-91 (Washington, D.C.: Nov. 15, 2002).
[13] *GAO, Public* Housing: HOPE VI Resident Issues and Changes in Neighborhoods Surrounding Grant Sites, GAO-04-109, (Washington, D.C.: Nov. 21, 2003).
[14] GAO-03-91

We also found in the November 2002 report that housing agencies with HOPE VI revitalization grants expected to leverage $295 million in additional funds for community and supportive services. In our most recent report concerning public housing (December 2005), we found that PHAs have used HOPE VI revitalization grants to leverage additional funds from a variety of sources, including private loans.[15] In particular, we noted an example of a renovation and the colocation of supportive services that were made possible through coordination of efforts and use of mixed financing—the Allegheny County Housing Authority's revitalization of the Homestead Apartments outside of Pittsburgh, Pennsylvania. The housing agency built space on-site for two nonprofit elder-care service providers in addition to remodeling the buildings. Approximately 67 percent of the funding for the Homestead renovation was based on Low-Income Housing Tax Credits. Under this program, states are authorized to allocate federal tax credits as an incentive to the private sector to develop rental housing for low-income households. While this represents a way for private capital to be used in conjunction with public housing projects, we noted in our November 2002 report that such funding does entail a federal cost (in the form of taxes foregone).[16]

Community Services Organizations May Provide Supportive Services to Public Housing Residents

PHAs may utilize community service organizations to provide supportive services to public housing residents. Our recent work has focused on the services that PHAs can provide to elderly and non-elderly persons with disabilities.

In a February 2005 report on housing programs that offer assistance for the elderly, we identified programs that public housing agencies can use to assist

[15] *GAO, Public Housing: Distressed Conditions in Developments for the Elderly and Persons with Disabilities and Strategies Used for Improvement,* GAO-06-163 (Washington, D.C.: Dec. 9, 2005).
[16] GAO-03-91

elderly public housing residents.[17] For example, through the Resident Opportunities and Self Sufficiency (ROSS) grant program, HUD awards grants to PHAs for the purpose of linking residents with supportive services. Also, HUD's Service Coordinator Program provides funding for PHA managers of public housing designated for the elderly or persons with disabilities to hire coordinators to assist residents in obtaining supportive services from community agencies; and its Congregate Housing Services Program provides grants for the delivery of meals and nonmedical supportive services to residents of public and multifamily housing who are elderly or have disabilities.

For our December 2005 report on public housing for the elderly and persons with disabilities, we surveyed the directors of 46 PHAs that manage public housing developments that we identified as both severely distressed and primarily occupied by the elderly and persons with disabilities.[18] This work identified examples of partnerships between PHAs and local organizations such as community-based nonprofits and churches to provide supportive services for the elderly and non-elderly persons with disabilities. In some cases, the local agencies paid for the services, while in others the housing agencies used federal grants. For example:

- A building manager for one development that we visited said the development partnered with a nearby church, which provided a van to take residents shopping once a week. Local churches also provided food assistance to elderly residents and residents with disabilities who were not able to leave their apartments.

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[17] *GAO, Elderly Housing: Federal Housing Programs That Offer Assistance for the Elderly,* GAO-05-174 (Washington, D.C.: Feb. 14, 2005).
[18] GAO-06-163

- At another housing development, a community-based organization provided lunches on a daily basis to residents and assorted grocery items such as bread, fruit, and cereal on a weekly basis.

- The aforementioned Homestead Apartments—a high-rise, primarily elderly occupied public housing development—was revitalized to provide enhanced supportive services to elderly residents, in particular frail elderly residents. To do so, the housing agency partnered with several non-HUD entities to improve services for the elderly and colocate an assisted living type of facility at the development. To help the most frail elderly residents, the housing agency partnered with a nonprofit organization, which offers complete nursing services, meals, and physical therapy to Homestead residents who are enrolled in the program. For most participants, these comprehensive services permitted them to continue living at home.

- In a partnership in Seattle, Washington, the housing agency partnered with a community-based organization to provide an on-site community center for the elderly, where residents had access to meals, social activities, and assistance with filling prescriptions. Residents at this development also had access to an on-site health clinic.

In summary, Mr. Chairman, over the past few years we have identified several ways for HUD to improve its administration of the public housing program. Our work has also identified challenges faced by the local public housing agencies that play such an essential program delivery role, not only those associated with implementing the reforms provided under QHWRA but also such day-to-day matters as correctly determining tenants' incomes and rents. We look forward to working with the Subcommittee as it considers the future of the public housing program.

Mr. Chairman, this concludes my prepared statement. I would be happy to answer any questions at this time.

Contacts and Acknowledgments

For further information on this testimony, please contact David G. Wood at (202) 512-8678. Individuals making key contributions to this testimony included Isidro Gomez, Lisa Moore, David Pittman, Paul Schmidt, and Julie Trinder.

Appendix I

Related Products

Public Housing: Distressed Conditions in Developments for the Elderly and Persons with Disabilities and Strategies Used for Improvement. GAO-06-163. Washington, D.C.: December 9, 2005.

Project-Based Rental Assistance: HUD Should Streamline Its Processes to Ensure Timely Housing Assistance Payments. GAO-06-57. Washington, D.C.: November 15, 2005.

HUD Rental Assistance: Progress and Challenges in Measuring and Reducing Improper Rent Subsidies. GAO-05-224. Washington, D.C.: February 18, 2005.

Elderly Housing: Federal Housing Programs That Offer Assistance for the Elderly. GAO-05-174. Washington, D.C.: February 14, 2005.

Public Housing: HOPE VI Resident Issues and Changes in Neighborhoods Surrounding Grant Sites. GAO-04-109. Washington, D.C.: November 21, 2003.

Public Housing: Small and Larger Agencies Have Similar Views on Many Recent Housing Reforms. GAO-04-19. Washington, D.C.: October 30, 2003.

Public Housing: HUD's Oversight of HOPE VI Sites Needs to Be More Consistent. GAO-03-555. Washington, D.C.: May 30, 2003.

Public Housing: Information on Receiverships at Public Housing Authorities. GAO-03-363. Washington, D.C.: February 14, 2003.

Major Management Challenges and Program Risks: Department of Housing and Urban Development. GAO-03-103. Washington, D.C.: January 1, 2003.

Public Housing: HOPE VI Leveraging Has Increased, but HUD Has Not Met Annual Reporting Requirement. GAO-03-91. Washington, D.C.: November 15, 2002.

HUD Human Capital Management: Comprehensive Strategic Workforce Planning Needed. GAO-02-839. Washington, D.C.: July 24, 2002.

Public Housing: HUD and Public Housing Agencies' Experiences with Fiscal Year 2000 Plan Requirements. GAO-02-572. Washington, D.C.: May 31, 2002.

Public Housing: New Assessment System Holds Potential for Evaluating Performance. GAO-02-282. Washington, D.C.: March 15, 2002.

Mr. TURNER. Thank you.
Ms. Glover.

STATEMENT OF RENEE LEWIS GLOVER

Ms. GLOVER. Good afternoon. I want to thank the chairman and the ranking member for this opportunity to provide testimony.

I also want to take a minute to recognize Secretary Cisneros, who, without question, was one of the finest Secretaries ever, and interestingly enough, he is really the genius behind so many of the reforms growing out of the Hope VI program, because by providing greater flexibility, it really allowed the private sector and other market forces to really do what they could do to empower the program. And in so many ways he's not given credit for it, but I wanted to acknowledge him because that took courage of conviction.

I also want to thank Congressman Lazio for his forward thinking because he is absolutely right, with all the regulatory entanglement nothing can really move forward, and the courage of the 1998 law really has made a big difference. So, thank you.

I believe that we all agree that reform is needed, but what is often overlooked is the real revolutionary change that is occurring today, and there are two causes for this: the Hope VI program and the deregulation through primarily the Moving to Work Demonstration Program. When I say revolutionary change, I mean a sheer sea change, because, quite frankly, what the Hope VI program has allowed is to truly step back and come up with local solutions to what are really local problems. The problem that is probably the biggest challenge with the public housing program is the concentration of families in poverty.

And so the question is: is there a thoughtful way, through resources, to deconcentrate families so they in fact can have an opportunity to achieve the American dream. What the Hope VI program has unleashed is the power of deconcentrating poverty, public-private partnerships, leveraging private resources, market forces, new partnerships, partnerships with the local school systems, with mayors and others, and, quite frankly, human development. I think if we look back at the terrible tragedy in New Orleans, what we see in terms of the families coming out of those conditions is the product of concentrating families in poverty.

In Atlanta alone, during this past 10 years, which, quite frankly, in the total scheme of things is a short period, we have developed using private sector development partners over 11 mixed-income communities, and having an economic impact of about $3 billion. That has also unleashed the power of about 1,070 acres of land. In addition, the families who have been impacted by the program have moved on to the work force, who have moved on to purchase homes and what-have-you, and they are in fact realizing the power of being in the mainstream of America.

The second, I think, most important benefit of the Hope VI program is that the private sector cares about these issues, and before, the private sector did not care about these issues. So now the private sector development community and private investors are now coming up with ideas of how can we continue this revolution without Hope VI dollars.

I still believe, however, that, notwithstanding all of this progress, there is much to be done. And so Senator Mikulski and Senator Bond from the Missouri area, have cosponsored a new and refreshed and reformed Hope VI program based on the learnings and best practices from the Hope VI program, and I believe that Congress should in fact embrace it and move it forward, because even though there are criticisms about the program, no one, not a single person, understood the great power that this program was going to unleash, not only just in Atlanta, but throughout the country.

The second very positive change is deregulation, and the Moving to Work Program has been going on since 1996, which has in effect allowed housing authorities, in a demonstration manner, to look at different ways of doing local problem solving, serving families without all of the regulations and I think that we are seeing really outstanding results growing out of that as well.

So I would say in order to keep the revolution moving forward, the Congress should in fact adopt and implement the Hope VI program and fund it, most importantly, so that we can continue this great revolution, because the families are in fact critically important, and I believe that if we can figure out how to deconcentrate families from terrible outcomes of poverty, we should have the courage to do it.

Deregulation, I believe, is going to be the real power to cut down on the costs of the program. As the Secretary commented, HUD is now looking at powering down the resources to the individual properties, but if the micromanagement continues, that will continue to drive costs, and I believe, the deregulation growing out of that effort won't be successful. There are about 3,400 public housing authorities. 2,800 own less than 500 units. We could easily just deregulate those without a whole lot of difficulty, and just have a very simple agreement with some outcomes, and that would address a huge part of the issue, and then the remaining entities could be brought into the Moving to Work Program, and that would be a very thoughtful way of moving toward deregulation for the entire industry.

And last but not least, money makes everything happen, and if in fact we have the mission of serving families who earn less than 30 percent of area median income, which is very little money, then there must be funding to support the programs.

Thank you.

[The prepared statement of Ms. Glover follows:]

Written Testimony of Renee Lewis Glover
Millennial Housing Commission Member and
Chief Executive Officer, Atlanta Housing Authority

House Government Reform
Subcommittee on Federalism and the Census

February 15, 2006

Good afternoon Chairman Turner and members of the Subcommittee. Thank you for the opportunity to provide written testimony to the House Government Reform Subcommittee on Federalism and the Census and its important work concerning the nation's public housing system. I am speaking to you as former member of the Congressionally chartered Millennial Housing Commission (MHC) and as Chief Executive Officer of Atlanta Housing Authority.

I will begin today by addressing two basic misconceptions that have colored the current debate over public housing and Section 8 voucher reform. I will then offer a two-part perspective on the public housing system, in general. Finally, I will provide the Subcommittee with three specific recommendations that will meaningfully improve the nation's public housing system.

MISCONCEPTIONS

The first misconception is that public housing agencies ("PHAs") are seeking "legislative cover" to abandon their fundamental mission— providing affordable housing to low-income families. This is not true. For decades, PHAs have served low and very low-income families. They continue to so even as they have adopted innovative strategies to deconcentrate poverty and to help families achieve self-sufficiency. The underlying mission has not been abandoned.

The second misconception is that regulatory flexibility and funding can be viewed as an "either/or" scenario. The false linkage that has been made between these two critical issues is cynical and counterproductive. PHAs need flexibility to tailor programs to meet local needs and priorities <u>and</u> continued federal funding is needed given the mandate and the mission to provide affordable housing to very low income families. PHAs are all too aware of budgetary constraints facing Congress. In spite of these challenges, funding for decent, affordable housing is, nonetheless, the foundation for providing opportunity for all of our citizens and must be a national priority.

PERSPECTIVE

<u>RETURN ON INVESTMENT</u> – In Atlanta, we have successfully addressed longstanding problems through our mixed use, mixed income, mixed finance development program. We have sponsored the creation of market-rate communities each with a seamless affordable component seamlessly inside of it, by using HUD development funds as seed money to engage private investors and developers.

This strategy has yielded neighborhoods that are being returned to healthy mixed income communities with great neighborhood schools and great quality of life amenities. In the last ten years, we have seen mixed use, mixed income developments generate approximately $3 billion of economic impact in Atlanta. This tremendous return on investment has resulted from the leveraging of Federal seed money of approximately $200 million.
In the world's most powerful nation, too many Americans are ill-housed, under-educated and poorly nourished. Unfortunately, in today's discourse these problems are rarely fully understood before the rhetorical lines are drawn.

National policy makers and local practitioners confront the question of whether thoughtful policy and strategic investment can make a difference in these conditions. I know it can be done because we have seen tangible results in Atlanta.

LEGISLATIVE REFORM IS NECESSARY. I offer the following observations to support the case for reform of the public housing and Section 8 Voucher programs:

- The public housing and housing choice voucher programs are unnecessarily complex, too prescriptive and the regulations are often contradictory and conceal too many unintended consequences and unfunded mandates. The programs lack a clear articulation of the desired outcomes.

- HUDS current funding methods are not designed to achieve a definable, desired outcome.

- HUD must re-engineer its regulatory scheme, monitoring and oversight and its systems and re-train its personnel as part of any comprehensive reform.

- Even though they are vastly different across the country, real estate market conditions (availability, cost and conditions) are treated as if they are static and equal—New York versus California versus Massachusetts versus Georgia.

- Policies that perpetuate the concentration of poverty yield terrible outcomes and have had the unfortunate consequences of:

  - Institutionalizing poverty
  - Creating environments of crime, drugs and hopelessness
  - Destroying neighborhood-based schools; and
  - Adversely impacting neighborhoods and the value of the real estate

RECOMMENDATIONS

Given the foregoing, I offer the following recommendations, some of which are discussed in greater detail in the Millennial Housing Commission Report.

1. **De-regulate small public housing authorities** – Currently there are approximately 3,400 public housing authorities throughout the nation. Approximately 2,800 PHAs own and operate fewer than 500 units ("Small PHAs"). I recommend these Small PHAs be exempted from unnecessary and burdensome reporting and regulatory requirements.

   - Today, Small PHAs must abide by most of the same statutory and regulatory requirements developed for PHAs that manages more than 500 units ("Large PHAs").

   - Small PHAs should have a simplified contract that establishes basic standards for physical conditions, financial status and operations, but strictly limits paperwork and reporting. In this way, Small PHAs can appropriately focus their staff and financial resources on property management.

   - Even under these simplified requirements, however, PHAs that are geographically isolated or face high staff turnover will need ongoing, reliable technical assistance.

2. **Develop a strategy and systems to transition all larger housing authorities to become "Moving To Work" (MTW) Agencies** – Currently 30 public housing authorities operate under the Moving to Work Demonstration Program. Under the various MTW agreements, PHAs have been relieved of many of the regulatory strictures and are able to develop locally derived solutions to providing affordable housing in their communities. The MTW agreements acknowledge local needs, local market conditions and local economies.

   - Building on the best practices and lessons learned from the MTW agencies during the Demonstration Period, Congress should authorize HUD to develop a transition plan to deregulate the large PHAs that are not currently participating in the MTW Demonstration Program.

   - The current participants in the MTW Demonstration Program should be allowed to institutionalize their Moving to Work Agreements, with changes as needed, based on the lessons learned and best practices.

   - Well-run agencies should be allowed to operate free from micro-management and a regulatory system that is overly burdensome, adds little or no value to the daily operations and delivery of services and, in too many cases, yields bad outcomes.

   - Deregulation should not mean, however, elimination or reduction of funding for the day-to-day operations of the local housing.

   - If agencies are not well-run, the recommendation offered in the Millennial Housing Commission's report is appropriate. In sum, agencies with competency problems should be required to accept alternative management models. If no qualified administrators can be contracted, however, alternative management could be provided by either the state or procured competitively from the public, nonprofit, or for-profit sectors. Finally, agencies with multiple problems that cannot be resolved through alternative management would have to report to an administrative or judicial receiver.

   Some argue that deregulation will not work. They contend that agencies left to their own decision-making process will make poor decisions. The obvious response to that argument is, of course, that the current conditions were created under a regulated system. By definition, regulation is not a shield from a poor decision-making process.

3. **Support The HOPE VI Program** – The HOPE VI Program is a strategic investment in America's future. This program should be reauthorized and funded at least at the levels of the past ten years and increased if the need is determined and the results justify the investment.

   The Senate and the House of Representatives are considering re-authorizing and funding the HOPE VI Program. SB 1513 "HOPE VI Improvement and Reauthorization Act of 2005" was introduced on July 27, 2005.

   Building on the best practices and lessons learned from the HOPE VI Program, Congress should authorize SB1513 or H.R. 3888 and fund a new HOPE VI Program that is driven at the local level by existing market conditions, housing and community needs, and local resource availability; e.g., low income housing tax credit cycles, private activity bond volume cap, and absorption of market rate units in the community.

Not only has the HOPE VI demonstration program been a catalyst for transforming distressed and disinvested neighborhoods in Atlanta and in many cities across the United States, it has also facilitated an environment where positive change in the lives of the residents has occurred.

The success of the HOPE VI program is found in its flexibility. To remain viable and successful, administrative oversight of this program must not be overly prescriptive. Notwithstanding the need to maintain a flexible structure, five guiding principles should be used to measure the program's outcomes:

Principle Number 1 - End the practice of concentrating the poor in distressed, isolated neighborhoods.

> The objective is to create market rate communities owned by public/private partnerships which seamlessly include affordable components. True market driven mixed-income communities with a blend of rental and owner-occupied dwellings are needed to replace ghettos of concentrated poverty because concentrated poverty promotes chaos. It creates an environment conducive to criminal exploitation, and the deeper the poverty, the more vulnerable people become. Conversely, by deconcentrating poverty we have seen the emergence of the ability to participate in society; an increase in social and economic upward mobility (demonstrated by higher employment and lower TANF dependency). It helps return, or sometimes introduce, individuals to the mainstream of society.

Principle Number 2: Develop communities through public/private partnerships using public and private sources of funding and market principles.

> Financial and social stakeholders should play a partnering role in the neighborhood revitalization efforts.
>
> The HOPE VI funds must come in as seed capital. The cost of relocation, demolition, environmental remediation, and a substantial contribution toward the hard cost of developing a public housing assisted unit and supportive service programs are critically important investment costs, but for which there are limited sources of funds or none altogether. No lender or private developer will provide resources for these costs because there is no monetary return to addressing a "Residential Brownfield."
>
> The dynamic between the public and private sectors must be changed. Substantive private involvement introduces a discipline the current public housing program does not have. The creation of the public/private partnership guarantees a built-in "accountability" feature because private sector involvement guarantees that the communities remain sustainable and desirable, and the introduction of private investment results in higher community performance standards and expectations. With this built-in accountability, HUD can focus on measuring outcomes and not managing process. As it stands now, current HUD procedures subject a development process to what appear to be the arbitrary application of modernization practices and timetables.
>
> Private developers, private investors, and other key stakeholders must be incented to play a significant role in the neighborhood revitalization efforts. Market standards and principles must be utilized. HUD must resist the temptation to be too prescriptive. Partners must have a vested interest in the outcome and continued success of the revitalization, which is critical to a leveraging strategy. Participants who view themselves only as contractors may not have the same alignment of interests. As partners,

stakeholders can participate based on unique roles and strengths, minimizing duplication of efforts or funding constraints. One of the most attractive features of HOPE VI is the ability to use public funds as seed money to attract other necessary investment, and our ability to fill this role as a partner must be maintained. Public housing funds alone are not sufficient to create the wholesale transformations that are needed.

A review of the regulatory burden placed on public housing assisted units in mixed-income communities should be undertaken. A more reasoned approach to establishing timeframes would consider market absorption and the cyclical availability of financial resources that would need to be leveraged, including low-income housing tax credits, private activity bonds and other subsidies. For guidance, HUD can look to other economic development programs which have longer time horizons, even up to 10 years, for economic development and community building.

Principle Number 3: Create mixed-income communities with the goal of creating market rate communities with a seamless affordable component.

Principle Number 4: Create healthy communities using a holistic and comprehensive approach to assure long term marketability and sustainability of the community and to support excellent outcomes for families, especially the children—with emphasis a culture of education, excellent, high performing neighborhood schools and excellent quality of life amenities, such as first class retail and green space.

Federal officials should consider ways to foster and provide cross-departmental or agency incentives for localities to work together, in a holistic manner, to build the opportunity for human development. Coordinating the distribution of funds for public infrastructure, transportation, and education and strategies that facilitate and attract future private investment in the surrounding neighborhood must be encouraged.

We must embrace a broad, shared understanding of a new local paradigm and a willingness to create based on enlightened community self-interest. The results here in Atlanta have been a tremendously improved sociology, better neighborhood schools, more neighborhood reinvestment, higher rates of employment among the assisted families, and reduced crime by more than 90%. In total, the change has resulted in a promising future instead of a certain failure.

To illustrate the point, one needs to consider Centennial Place Elementary school which sits on the former site of the nation's first public housing project, Techwood Homes (early HOPE VI recipient). The school serves downtown neighborhoods, including Centennial Place, a thriving, mixed-income community where residents work, pay rent, and abide by their rental agreement and the law. Unlike the concentrated poverty that once occupied the real estate, the neighborhood is socially and geographically integrated into the broader community and it's an environment that is safe. Performance at Centennial Place Elementary School has gone from the cellar through the roof – performing higher than national averages on standardized tests. Several other elementary schools in more recently revitalized communities have shown substantial improvements as well.

Centennial Place Elementary has several lessons for those of us helping to shape public policy. First and foremost, all children can learn if provided with an environment that is devoid of chaos and hopelessness. Failure should not be a given track for children living below the poverty line any more than it should be for a child living in an affluent setting.

And finally, children develop and grow in a whole environment. Certainly where they learn matters, but where they live matters, too.

Principle Number 5: Expectations and standards for personal responsibility should be benchmarked for success. Residents should be supported with adequate resources to assist them to achieve their life goals, focusing on self-sufficiency and educational advancement of the children and their parents.

In closing, if national policy leaders could embrace the public housing system as an asset then the public debate would change and so would the system's outcomes. Examples exist of what happens on a local level when the public housing resource is accepted as an asset and it can be replicated in other localities.

Thank you.

Mr. TURNER. Thank you.

Mr. Secretary, I know that you are under a time constraint, so I wanted to check with you on your timeframe. Are you OK? Because we can focus questions in your direction if we need to.

Mr. CISNEROS. I'm fine.

Mr. TURNER. I appreciate all your testimony. As you know, from your personal experience and background in this topic, this is a very broad spectrum that we are looking at today, so our questions to each of you are going to focus on just one or two aspects of what we are looking at, and that certainly should not be interpreted as our lack of interest in other areas. Each of you in your written testimony have given us a very broad overview of some of the things that we need to do and some of the things that work, great policy discussions throughout the documents that you have given us.

Most of the topics that people have raised fall in about four different categories. One, management of the facilities themselves; two, resident-focused comments, intervention, economic mobility, transition from public housing; three, financial, both our financial participation on the Federal level, but also financial structures and creativity in looking at capital structures, budgeting and the private-public partnerships that might bring additional financial resources; and then one that's almost architecture in nature both by buildings themselves, but also in the place where the residents live, looking through both vouchers and mixed-use developments, and mixed-use economic structures.

I am going to begin my questions by first telling you a story and asking your response to that, and then my second area of focus, which I am going to actually ask the question about first before I tell you the story. And that is, I would like each of you, after I get your comments on my experience that I had with public housing, is to give your thoughts on ways that we can increase our intervention for residents even if we have the appropriate structure and type, but even if we have very well-managed facilities, and even if we are doing everything we can with the public dollar and trust, the focus of being able to impact the lives of the people that live in public housing or Section 8 voucher programs is important, and I know each of you have thoughts and background experience in that. So if you could also comment on that.

Now for my story. As I served as Mayor for the city of Dayton, I did not have direct authority or control over public housing as is usual in many communities. I had appointment of two seats out of five on a regional board. I was very active in transitioning our neighborhoods to market-rate housing production. We had, in our neighborhoods, many abandoned lots, many abandoned structures. We went into the neighborhoods. We acquired the lots, built new housing, the abandoned housing rehabilitated, and bring the community back into a focused neighborhood to see what was possible. One of those neighborhoods we abutted against a public housing development, and the public housing development had been the site of crime and drug activity and was largely viewed as a budding influence in the area, both for the residents that were there and for the community that we were actively redeveloping with market-rate housing.

I approached the public housing authority, and I posed the question to them as to the long-term future for that site, since, as we were beginning to redevelop housing there was a market demand for market-rate housing. This piece of property would be a great addition to our efforts. And I was told that in fact this site was scheduled to be remodeled, and there was going to be additional investment that was going to occur. And I told them perhaps we could make a deal and you could save those funds of redevelopment. What could we do to transition this site that we might be able to gain the land and put it into productive use.

I was very well aware that they had a significant amount of vacancy in other units, and wondered about the ability to transition both new individuals that are moving into the facility, or perhaps even people who live there, to other facilities. I was told that the people who lived in this particular housing development would not move, but that if this facility was demolished, that because they were on borderline for economic mobility, that there was enough affordable housing available in that area, that they would most likely leave public housing and go out into the marketplace. Of course, I thought that was the whole idea. So my next question was, well, why wouldn't that be a good thing? I was told, well, that facility contributes an administration portion of overhead costs to our larger metropolitan housing authority, and therefore, their decision would be not to lose this facility because they didn't want it to impact their bottom line, even though it might be better for the community, better for the residents that were there.

That is more along the lines of a management issue. At that point I obviously got much more involved in public housing, and that facility is transitioning to market housing today. But I would like your thoughts first on management decisionmaking. How do we go about the process of making certain that in management decisionmaking that we do provide incentives, and that those who have leadership responsibilities for public housing are looking holistically at the impact for the residents, impact for the communities?

And then second, I would love your insight on things that we might be able to do better for resident intervention.

Mr. Lazio.

Mr. LAZIO. Mr. Chairman, I think that the first thing that comes to mind is that you have to align the incentives for creativity correctly so that the maximum amount of options are before the housing authority's management, whether it's a land swap, providing for, as the bill did, a vouchering out. You have to, it seems to me, you have to be tenant centric on this. Looking at your situation, looking at this building or a series of buildings as a cross-subsidy opportunity for their other areas, seems to me that they got to provide the opportunity for them to think more broadly about mixed use in some other spot, or some other way in which some of that revenue shortfall might be addressed. But if you're focused on the tenants, and you want to give them the maximum opportunity to, as I said earlier, get to the right school district for their children or get closer to a transportation hub so they can get to jobs, have a better life, then it may be that in your case that a vouchering option ought to have been explored.

I do think that it would be a terrible mistake to presume that all tenants in public housing want to stay there. It is also an equal mistake, in my opinion, to suggest that the entire policy of the Federal Government ought to be to promote homeownership, because I do think there are people that will always need and desire rental housing, and that it is at least a responsibility of the Federal Government, has been since the 1937 act, to provide it in a safe and healthy way, be a good partner.

Looking for creative ways in which you can leverage other government money, other local government money, other local government assets, whether it's buildings or land, providing enough incentives so that they can consider these type of swapped arrangements, and including the possibility of tenants moving and having a choice through a Section 8 voucher program, or by converting that voucher to homeownership, which is also provided for in the bill so that you could provide for the value of a Section 8 voucher for down payment assistance or to service a mortgage. Those are the kind of things I think that need to be laid out to a management authority of a PHA in the situation that you have outlined.

Mr. TURNER. Mr. Secretary.

Mr. CISNEROS. Mr. Chairman, I have to take a slightly different tack than what you did as Mayor. One of the things I felt strongly about as Secretary was that we couldn't, in the zeal for reform, give up sites because we needed the hard units, and that the proper thing in a case like that would be to redevelop that site with the housing authority still having a major role, perhaps more mixed income, perhaps with private units in there and so forth. Not because for administrative reasons, but because one of the great sort of moral dilemmas for me through this whole process has been, as much as I favor what we've done with Hope VI and the use of Section 8 and the deconcentration, and the lower densities, the critique is we gave up too many hard units and there's too many people who need the units.

So I guess my tack would have been a different one in that case, trying to redevelop that piece of ground, make it compatible with what was around it. I've just seen so much evidence across the country that could be done, whether it's Park Duvall or the site in Newark that was at the epicenter of the riots in 1965 that now has Hovnanian Builders building across the street from it. I mean cities are being transformed because of what's being done with those sites, and still keep some hard units, some percentage of units for the very, very poor.

So that's a different kind of perspective, but if I may offer that.

Your second very briefly, resident intervention. I think—I've often felt that what we're missing in the key intervention is a linkage to education, and Renee has done a good job, for example, at Centennial Homes with a magnet school built into the project, at University Homes near the Atlanta University complex. Denver has done some connection to the community college. I'd like to just kind of throw out an idea that's been a pet sort of thing of mine for a lot of years. A couple of housing authorities picked up on it, but maybe the Government Reform Committee would find it interesting, and that is a concept that I called "Campuses of Learners." Imagine that we thought of public housing sites—keep in mind we

want these to be temporary places for people to live before they go on to the rest of their lives—that we thought of them more, as we think of residential camp housing on a university campus. People are there while they're learning, while they're improving their lives, while their children are learning, while they're enhancing their skills. And really build in a linkage of training and community college, and even higher education, and computers onsite and all the rest of it, but it's designed to be there to give you the resources where you can go on with the rest of your life, just as we think of a university campus.

That's kind of an abstract notion, but a way to maybe accomplish what we really want to accomplish both in the physical site and the self-improvement for families and individuals.

Renee knows a whole lot more about this than I do.

Ms. GLOVER. I just wanted to add that it's interesting, when you get on the ground, there's always, I think, the misperception that the families are more tied to these properties than you might think. And one of the things that Mr. Wood alluded to, is that if you were to do an assessment of what's going on with these sites, particularly the large, distressed sites, you would see very high rates of crime, very low work force participation, very, very low levels of income and so on.

So the question is, is there a way of creating a healthier environment so that you can get better outcomes for the families, and at the same time, having more powers of incomes on the neighborhoods, because, not surprisingly, the families want what every other American wants. So one of the things that has been so powerful with the Hope VI program is bringing in the private sector, creating a community that in fact is a community, and it is not all about poverty and despair, but it's really a market-rate community with affordable units as a part of it, so that we're actually creating communities for workers, middle management and senior management.

And you get so many wonderful benefits from that, because what you have is role models in terms of families working and encouraging the families to work. Working with the schools is so critically important, and in fact, that's one of the reforms in Senator Mikulski's legislation, because, quite frankly, schools drive neighborhoods. Nobody picks up the paper on Sunday, when they're looking to locate their families and say, "I want to find the worst school in the district so I can purchase a home." So the linkage of great schools and great communities is critical. The families really love the Section 8 voucher because it represents choice, and the key is administering the program well so the family's not moving from one bad situation to another.

So I think that if we could eliminate a lot of the myths, I think aligning the incentives and the funding is the way that you get to better decisionmaking. What we have seen, that $3 billion worth of economic impact that we have had is both on the plot of ground, and if you think about 1,078 acres of under-performing real estate throughout a city, and that's just 10 of the projects—there were 40 some of them—then you can see the power, empowering of that real estate. But more importantly, tapping into the human potential because 6,000 families were living in these conditions, and I

will tell you, we have not had any resistance, once you get on the ground working with the families, about do you want a better opportunity, because the answer is always yes, yes, yes. What they're concerned about is not having the resources to relocate their family so that they can too achieve the American dream. Not everybody wants to achieve homeownership, but I promise you, everybody wants a better educational opportunity for their children and a decent healthy environment, and they do not want the stigma of being labeled poor and being institutionalized in poverty.

So I think that there's a lot of great best practices that we can use to approach the reform and be thoughtful about it, and also get significantly better outcomes and better decisionmaking.

Mr. TURNER. Excellent, thank you.

I just want to say with respect to that particular development that we were facing, it was a 7-year discussion then that the community undertook as to what to do, both with the leadership of the housing authority and this property, all of which took in the components of—as a result of the leadership of Congressman Lazio and Secretary Cisneros, of the options that you then gave communities to undertake. The concern wasn't the initial approach and the initial discussion, it was one where the authority was unmotivated as a result of their own bottom-line view versus, as with Ms. Glover, what we see as so many times the great things that are accomplished are accomplished because of leadership at the local level. There has to be a way, as you provide Federal tools that are creative, and transitioning of creativity at the local level, that we encourage them to take advantage of those.

Mr. CISNEROS. Congressman, if I may, Mr. Chairman, the problem that we encountered when the Hope VI program started was that in many cities the public housing had been built in an earlier era at the edges of where the work and the employment was and where the workers were needed. As the cities began to rebound and the downtowns rebounded, this became very valuable property, so we had a lot of people coveting, developers coveting that land, and we took the position that this was for public housing, and that as problematic as it was, we needed to redevelop it, but not sell it off because the losers were going to be the poorest folks.

When you operate at the national level, you have to be sort of gross about this and set policies because otherwise they're violated in the specific case, and that's why I ended up, you know, in that posture, that where possible, let's redevelop them and save the housing, rather than allow high-rise office towers on that site.

Mr. TURNER. Certainly you have to look at the core mission of the public housing.

Mr. LAZIO. I'd add one thing, Mr. Chairman, also if I can. Increasingly you're seeing housing authorities use the low-income housing tax credit program, which has been an incredibly successful program for the Federal Government, to be able to access some dollars, and in a case like this—and I don't really know what the facts are on the ground, but it might well have been that option which would get you to a mixed income, provide some additional dollars, maybe redevelop the site consistent with the community and still have enough money to put maybe other units online or provide vouchers would have been the win-win.

Mr. TURNER. Thank you.

Mr. Clay.

Mr. CLAY. Thank you very much, Mr. Chairman.

First, I would like to start with Congressman Lazio. Welcome, and it is good to see you again.

Mr. LAZIO. Thank you, great to see you too.

Mr. CLAY. Let me say that the 1998 reforms were a positive development, particularly the authorization of Hope VI and its value to public housing authorities across the country. My concern, however, is that we are underfunding Hope VI and the voucher programs within HUD. Would you agree with the premise that policy reforms can only work if they are adequately funded?

Mr. LAZIO. Yes.

Mr. CLAY. OK, you agree with that one. [Laughter.]

Now, this year—there is no argument about that, OK. [Laughter.]

You don't want to expand on it, do you?

Mr. LAZIO. Congressman, there's an old story over in Russia, and I asked somebody about how he thought the economy—give me a summation in one word of how he thought the economy was. He said, "Good." I said, "Well, could you expand on it?" He said, "Not good." [Laughter.]

Mr. CLAY. I will serve you up another softball then. How about this one: this year the public housing capital fund program is funded at $2.4 billion, even though capital improvement needs are estimated to be nearly $20 billion across the Nation. As a representative of the banking industry, can you offer us some perspective on the benefits and shortcomings in this program? Are PHAs able to leverage adequate private sector financing for new development need?

Mr. LAZIO. I'm not sure I could answer that question of whether it would satisfy me or would satisfy you, Congressman, because I don't know that I'm up to speed quite enough. But I will say this, that the public funding does matter, that it can provide flexibility, which I think we have, and we could provide the incentives and the option to leverage and to provide these public-private pools of capital, and to leverage off of them, and that ought to be done. But that is not going to completely substitute for a Federal commitment, a public commitment to public housing and assisted housing.

Mr. CLAY. Thanks for that response.

Let me ask Secretary Cisneros, and good to see you again also.

Mr. CISNEROS. Yes, sir.

Mr. CLAY. Is there a model for best practices for PHAs across this country, and do they even pay attention to them, and have you seen any PHAs that have taken these best practices to heart and transformed their agency?

Mr. CISNEROS. Yes, sir, I think there are some very good public housing authorities, and some model cities. It's not just because she's here, but one of them, truly, is what Renee has done in Atlanta. It's worth a trip there to see the highlight projects and the combination of projects and what they've meant for that city.

It's relatively easy to define the high performers because HUD has a grading system for management, for properties, for outreach, etc., and among the highest performers traditionally have been Se-

attle, Denver, for example, and I would comment you to those because they're just good operations, just creative people. They understand their role in the real estate market of that town, of those cities. And those have been good examples.

There are other cases that are maybe not as great for the whole authority, but some sites that are spectacular, like Park Duvall in Louisville, for example. I think some of the Baltimore projects, where they took down all of the high-rises, four big complexes each with about 12 high-rises, they're all gone, and now townhouses and reasonable scale in their place. Another example, what McCormack Baron has done in your city, at what was Murphy and is now a different name, is an example of wonderful school, training right onsite, families in the town homes. Those would be some that I would cite for you.

Mr. CLAY. Darst-Webbe is what you were looking for. Darst-Webbe.

Mr. CISNEROS. Right.

Mr. CLAY. On another front, because of your close ties to Texas and San Antonio, I wanted to hear some of your thoughts on how FEMA and HUD have fared in housing displaced residents of the Gulf Coast, many whom have moved to Texas after the storm. Has the Katrina disaster housing assistance program been an adequate response to the roughly 75,000 citizens of New Orleans who relied on Section 8 program housing?

Mr. CISNEROS. You really don't want my—we were trying to keep this on a high tone, and we're trying to keep this positive. [Laughter.]

Mr. CLAY. I want you to try to answer that one, and we'll move on.

Mr. CISNEROS. Truly, there's almost nothing about the Katrina situation that we could cite as a model of how to help a city to recover or treat people who have been displaced. In my own city, we've had tens of thousands of people who were living in an old Air Force base hangar for the longest period of time. They've now begun to filter into other housing through churches and so forth, but I must say, very little can be attributed to the responsiveness of the U.S. Government.

Mr. CLAY. So HUD included, the response could have been better.

Mr. CISNEROS. Yes, sir. I wish I could be more positive about it.

Mr. CLAY. Thank you for your answer. I appreciate that.

Mr. Wood, you have stated that a November 2002 review of Hope VI budgeting by a sample PHA revealed a 60/40 split in public and private financing of program activities. Can you describe what types of private sources are involved in Hope VI financing, and is there adequate capital available to the PHA community for development needs?

Mr. WOOD. The 60/40 split I believe refers to the involvement of private capital for supportive services. The amount of private funds involved in the capital projects that those grantees that we looked at was actually much smaller, it was about 12 percent. But the leveraging for community and supportive services had to do with things like job training, providing transportation or meals and things of that sort.

Mr. CLAY. Thanks for that.

Ms. Glover, your testimony really piqued my interest about how you connect education or opportunities to residents, and I was wondering, the education or opportunities, do they expand to the adults also?

Ms. GLOVER. Well, they certainly can. But let me just expound a little bit on the education reform, because in all of these communities there are neighborhood public schools, and so the opportunity is to connect the education reform that's going on in every city in America, and certainly that is one issue that has enjoyed, I think, consistent support regardless of Republican, Democrat. Everybody knows that education is the great equalizer.

So what we have done is working with the public school system, as we reform these communities, and we reform the social environment from which the children are coming to attend the public schools, this creates the opportunity for the school system to leverage their reform efforts, because what has happened in too many of our urban cities, is that the schools have become crisis centers rather than great places of education, and that's why this notion of moving away from concentrated poverty is so important, because you really can leverage so many opportunities because at the end of the day, environment matters. What we needed to be looking at is how can we create opportunities and environments for families so that they are not harmed by the environment, but in fact, can afford the housing, can also have a great opportunity in terms of education and what-have-you.

I will just point out that in each case of the 42 properties, 26 of which were serving families in Atlanta back in 1994, there was a captive elementary school inside of each one of those communities, and without exaggeration, those were the worst public elementary schools in the entire system. So you have a bad social environment and a bad school environment, we can all sit here and predict the outcome. So this really creates the opportunity, which I believe is so important in linking both education reform with the housing reform, and I think we'll start seeing much greater and many more success stories around education.

Mr. CLAY. Let me just point out to you that there is a direct link to educational performance by students, and educational attainment of their parents. And when they come home with homework and their parents don't understand and cannot help children, then it bears a direct link to those students' performance, and I just wanted to make you aware of it.

Ms. GLOVER. Oh, absolutely. I'm very aware of that. You're absolutely right.

Mr. CLAY. If you have an opportunity to address it, that would be pretty interesting.

Ms. GLOVER. OK.

Mr. CLAY. Let me ask you about your testimony. You spoke to legislative reform, and what should be undertaken by Congress in order to improve the Section 8 program. I guess my real concern is that Congress can institute all of the new reforms at once, but we will be back here in another 5 years if we don't make a full commitment to funding these programs. Can you offer us some

ideas on how we can establish more significant and reliable funding mechanisms?

Ms. GLOVER. Well, I think the starting point is really an agreement among Congress about what it is that we're trying to accomplish. If in fact we agree that we want to have families living in healthy environments, and if we want to serve families who earn 30 percent or less than the area median income, then we have to look at the local real estate markets to determine what the rents are in less impacted neighborhoods, because what affords the rent is what the family is paying based on 30 percent of their income together with the subsidy that is provided by the voucher.

So if indeed we want families living in healthier communities and not in very distressed communities, there is a price to be paid, and over time—see, I believe that if we in fact can improve the environments where families in fact are raising their children, that over time there will be less of a need for the subsidies, but there's going to be a transition period, and so I think it's strictly a matter of agreeing on what policies we want to support and then put the funding to it. So there's a way of getting at that number, but certainly if you make the subsidy more shallow, that is going to cut down on the opportunities in terms of good housing opportunities for families using that voucher.

Mr. CLAY. I thank you for your response. I thank all of the witnesses for their response. Perhaps I will take Mr. Cisneros up on his suggestion to come and see your housing authority.

Ms. GLOVER. We'd be delighted to have you come, sir.

Mr. CLAY. And come and see Mayor Franklin. Thank you all.

Thank you, Mr. Chairman.

Mr. TURNER. OK. Mr. Dent.

Mr. DENT. Thanks, Mr. Chairman, and good afternoon.

A couple questions on Hope VI. As you know, Hope VI was created to help demolish some existing public housing units, the more stressed housing units. That has been a success with my community. Allentown, PA has just received a $20 million grant, for which we are very grateful, and we are going to take out one of the oldest housing projects in the Nation and turn it into a much more appropriate housing mix than had been the case.

My question to the panelists, would you conclude that the program has accomplished its goal and its purpose? The goal was, I guess, to demolish about 86,000 units, and we are approaching that number. Do you believe it has accomplished its purpose, I guess is the question I would have. Maybe we should direct it to former Secretary Cisneros.

Mr. CISNEROS. I will be happy to begin, sir. I believe it has accomplished its purpose and that it is one of the great untold bipartisan successes of the last decade or so. The origins of it are in the Jack Kemp period at HUD, where he had Hope I, II, III, IV, V, and VI, which came about as a result of a commission on the emergency status of the most distressed public housing in the country. In the fall of 1992 they finished their work, so before we came into office. Then it fell to us to write the regs and implement Hope VI, and I chose to build on what Jack had done, despite, you know, the kind of the pressure to sort of separate from the previous administration and start something completely fresh. It didn't make sense

to start over, so we sort of continued the genetics of it, if you will. So I see it as a bipartisan program.

And when folks like Rick Lazio weighed in and the Speaker in that era, to tweak the program and improve it, it truly has been a major contribution.

One, there are multiple reports. This report that Mr. Wood made today from the Government Accountability Office, but also the Urban Institute and the Brookings Institution and others, which have basically documented that cities are different, central cities are different where Hope VI has succeeded, because now investment is possible. Where there were sinkholes for just no energy, no investment, today they're magnets for investment. And I could cite city after city, Chicago, Newark, Pittsburgh, all kinds of places that were hopeless in these neighborhoods that today are thriving.

Now, the down side—and I'll be very brief—is I think we have to be careful not to lose track of the number of people we were serving before, and that's what the critics come after us on, and I accept the critique. In downsizing, in making it less dense, we use Section 8 to send people other places. Don't know exactly where all those folks went and don't know what happened in their lives, and we ended up with fewer hard units to serve. That was the right thing to do for all the reasons that I've cited. But for me there will always be a sense of obligation to make sure we keep the numbers strong, so that we actually didn't end up cutting people off, you know, and sending people to homelessness or other bad conditions. But I do believe the program accomplished its purpose.

Mr. DENT. I guess then the next question would be what remains to be done, I guess, where do we go from here?

Mr. CISNEROS. I would say more of the same. There's yet a lot of cities and a lot of sites that are as bad as what we fixed. We fixed the worst I think. Renee could speak to that, you know, because she's in the field every day. But I would say another decade of this, and we will have turned public housing around. It will be a different creature than it was in 1992.

Mr. DENT. And another issue that I've noticed in the urban areas where I live is not simply public housing, but what we would call row homes in a place like Allentown. Many of your eastern cities have them. We have row homes that were once owner occupied, were since converted to apartment units or a home that one family—maybe a three-story home—converted to three apartment units. You mentioned density, increasing the density in town, more garbage, more kids at school, more cars in the streets. And I have noticed one thing that we have been very successful in our area, at least a slow process, but trying to deconvert these apartments back to owner-occupied settings. Many people paying those rents they are paying could easily afford a mortgage. Many don't realize that, but that is a reality.

I guess my question is: what role should the Federal Government play in deconversion of those types of housing units that are not publicly owned? What can we do to help that, because that would do a great deal to empower people and their neighborhoods.

Mr. CISNEROS. I think the Federal Government does have a role through CDBG, through the proposed Homeownership Tax Credits, for example, through other programs that give more resources to

local government to enact programs like that. I don't think it warrants a Federal program for that end, but I do think that Federal resources are needed. Local governments just don't have the money.

Mr. DENT. Correct. In my view, that would probably do more to help restore neighborhoods to their former luster than anything else we could possibly do, must simply because you are lowering debts and you are creating ownership opportunities. Does anybody else have any thoughts on that?

Mr. LAZIO. The only thing I would add to that, two things if I can, Congressman. One is that there is actually authority in the bill to use the value of a rental voucher for homeownership, either for down payment assistance or to help service the mortgage. And you are absolutely right, we saw this in places like Long Island where I was from, where people were in basement apartments, but the voucher that they were being given to pay the rent was more valuable than the cost of servicing a mortgage for them. They could own their own place and build some equity and have the stability of homeownership, so for some people that's really going to work, and it's a matter of bringing this to the attention, in part, of the local housing authorities.

The second part of it is vouchers, especially rental vouchers, only really work when you have some slack in the market, so you have places for people to go to. That's why when people talked about a vouchering out model, I thought, well, that's a one-size-fits-all for all communities. There's going to be situations where actually giving someone a voucher will be meaningless because the market is so tight they have nowhere to go.

So incentivizing the construction of market rate units that are still at the same time affordable is important, and I would say, politically, if I could add this last point, in my experience, to talk about housing, affordable housing in terms of providing opportunities for entry-level workers, no company in your back yard is going to be able to grow if there is not decent housing for people who are moving up the ladder, who are starting in entry level and middle management, and that does resonate with a whole different group of constituents.

Mr. CISNEROS. Very good point.

Mr. DENT. My observation has been the programs have been enormously successful where tried, but there is not enough funding to facilitate the deconversion process fast enough. You know, we get some very good examples of success, but we just can't do it quick enough. It is much easier, apparently, to convert these owner-occupied residences to apartments than going back the other way, and so I am just trying to accelerate that process. Any thoughts you have as to how we can do that with our Federal dollars is appreciated.

Mr. CISNEROS. Your nonprofits in your community can play a role.

Mr. DENT. Correct, and our nonprofits are doing that. Again, it is about funding, but they have done a terrific job and we have used them very effectively actually.

Ms. GLOVER. I just want to speak very quickly to whether Hope VI has met its mission. I think it met its initial mission, but I

think Secretary Cisneros was absolutely right, another 10 years would be very, very important.

And I wanted to inform the process just a little bit on what the Hope VI money does because I think that there's a sense that it's really not leveraging and meeting its goal. Basically, it pays for the cost of relocating the families, the cost of demolition, the cost of the human services programs that are critically important so that the families, who in fact are using vouchers and entering the mainstream for the first time, can be successful in community.

And last, but not least, buying down the cost in a mixed-income community of that affordable unit so that the rents can be affordable to the families who need it, thereby leveraging private resources for housing for middle management and senior management.

So that if you leverage it correctly, you really can have a very important impact, and certainly, I think if you drive around urban America, you know, based on your own observations, that more is needed.

And I wanted to mention that another area are these very old project-based Section 8 properties that are coming to the end of the life of the voucher, and that too will need some repositioning because if not, it will opt out, and the private sector will in fact take over those resources that had indeed provided affordable housing for cities. So I think that there needs to be some attention paid to those older properties because they are opting out, not because people are not committed to affordable housing, but because there are no resources to help in preserving the stock and doing the same type of treatment that we've seen with Hope VI.

Mr. DENT. Thank you.

Mr. TURNER. I want to thank all of our panelists, but first off, let me thank Mr. Wood and Ms. Glover for your participation, the technical expertise that you bring to the table. This is our first hearing and it is an overview, and we are going to now take up issues that are more specifically targeted, and I am certain that we are going to be in touch with you, not only as we continue this process to get your insight, but as we begin to pick those issues and ideas, to get your input on how we might focus and topics that we might be able to make an impact on.

And for Congressman and Mr. Secretary, if you look at all the testimony that is going to follow in panel two, almost all of the policy discussions, when they talk about what has happened in the most recent past and then what things that we need to look forward to, most of those policy issues come from the discussion that you two gentleman had and the initiatives that you have given, and opportunities that you have given to communities. So let me thank you for your contribution to the intellectual focus of when everyone takes up the issue of how do you undertake reform for public housing, and also how do you function, and how do you make certain that it serves our communities. Your willingness to spend your time to come speak to us and talk about those topics of which you both have, obviously, a great deal of love, and a great deal of expertise, is very much appreciated. I am certain that we will be in touch with both of you also as we take up issues and ideas.

We want to, from this testimony, see what areas need additional focus and oversight, so that we can then look to see some of the things that you two undertook that have not been implemented correctly, or that now have done their job and need to be tweaked so that they can serve more effectively.

Before we close completely, I wanted to give the two of you any opportunity for closing remarks that you might have.

Mr. LAZIO. Mr. Secretary.

Mr. CISNEROS. Thank you, Rick.

Mr. Chairman, let me just thank you again, and Congressman Clay and Congressman Dent, and the rest of your committee, because I know that the mandate of the Government Reform Committee is broad, and you could take on any number of subjects. This is an important subject.

First of all, there is a real opportunity here to build on some reforms. Second, it is an unsexy subject, so it's just not taken up frequently, but this is an opportunity to really transform public housing in America. We'll end up with something completely different if we build on the themes that we've learned the last years. So your voice of leadership, bipartisanly, could make a huge difference, and I just want to encourage you to take that theme of reform and march on. Thank you.

Mr. TURNER. Thank you.

Mr. LAZIO. The only thing I would add to that in associating myself with the Secretary's comments is, is that there is no lack of hunger or need for more creativity by members of this committee or of this body. And if you would look at this as if Henry and I were never here and you want to create something from scratch, I guarantee you're going to find some great ideas that will be able to be leveraged by some of the great housing advocates that are in this room.

And just to make this last point, as you consider how you're going to evaluate our housing policies, you'll be doing the right thing by listening, and I would really encourage you to get out in the field also and hold some field hearings and speak to the people and tenants whose lives are impacted every day by this.

Thank you.

Mr. TURNER. Excellent.

I am going to recognize Mr. Clay for closing comments.

Mr. CLAY. Thank you, Mr. Chairman.

Just very briefly, I would like to take this opportunity to recognize a young man that is with me today, who is serving as my shadow today. He is an 8th grader from Oneness-Family School in Bethesda, MD. I wanted to introduce him and insert in the record his name, Remington Williams, who is with us today, and thank him for being here.

Mr. TURNER. It is wonderful to have him with us.

Mr. CLAY. Thank you. Thank you all.

Mr. TURNER. Panel one, thank you so much. We will turn to panel two then. We appreciate you attending.

Panel Two includes Mr. Rod Solomon, Mr. Conrad Egan, Dr. Alexander von Hoffman, Dr. Edgar Olsen, and Dr. Michael Stegman. We will take a few minutes recess as we change panels.

[Recess.]

Mr. TURNER. Gentlemen, thank you for joining us. We will now hear from our second panel. Today we have Rod Solomon, counsel with the law firm of Hawkins Delafield & Wood; Conrad Egan, president of the National Housing Conference; Dr. Alexander von Hoffman of Harvard University Joint Center for Housing Studies; Dr. Edgar Olsen of the University of Virginia; and Dr. Michael Stegman of the University of North Carolina.

I thank each of you and welcome you, appreciate the time that you have taken to participate and the time that you are spending with us here.

Before we begin, I would like to remind our witnesses that oral testimony would be limited to 5 minutes. We do have your written testimony, and we appreciate the information you provide to us there. You will notice that there is a timer on the witness table. The green light indicates that you should begin your prepared remarks, and the red light indicates that your time has expired. The yellow light indicates that you have 1 minute in which to conclude your remarks.

It is the policy of this committee that all witnesses be sworn in before they testify, so will the panel members please rise and raise your right hands?

[Witnesses sworn.]

Mr. TURNER. Let the record show that all witnesses have responded in the affirmative, and we will begin with Mr. Solomon.

STATEMENTS OF ROD SOLOMON, COUNSEL, HAWKINS DELAFIELD & WOOD, LLP, FORMER HUD DEPUTY ASSISTANT SECRETARY FOR POLICY; CONRAD EGAN, PRESIDENT, NATIONAL HOUSING CONFERENCE, FORMER EXECUTIVE DIRECTOR OF THE MILLENNIAL HOUSING COMMISSION; ALEXANDER VON HOFFMAN, SENIOR FELLOW, JOINT CENTER FOR HOUSING STUDIES, HARVARD UNIVERSITY; EDGAR O. OLSEN, PROFESSOR OF ECONOMICS, UNIVERSITY OF VIRGINIA; AND MICHAEL A. STEGMAN, MACRAE PROFESSOR OF PUBLIC POLICY, PLANNING AND BUSINESS, AND DIRECTOR, CENTER FOR COMMUNITY CAPITALISM, KENAN INSTITUTE OF PRIVATE ENTERPRISE, ADJUNCT PROFESSOR OF ENTREPRENEURSHIP, UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

STATEMENT OF ROD SOLOMON

Mr. SOLOMON. Thank you, Mr. Chairman, Congressman Clay, Congressman Dent. I'm Rod Solomon now with the law firm here and formerly a HUD official with the honor of helping Congress develop the public housing reform law, and then coordinating implementation at HUD for 5 years.

Last year the Brookings Institution published my report, which reviews progress under the 1998 law, and I'd ask permission to have the report included in the hearing record. Thank you.

The law contained many initiatives. My report tracks progress on 54 provisions, each with its own story. But more generally, I reviewed progress regarding four broader objectives: one, improving or replacing the public housing stock; two, increasing tenant self-sufficiency and promoting public poverty deconcentration; three,

improving or replacing public housing management; and four, improving the voucher program.

Overall we should recognize the enormous change that's occurred in these programs and many of the PHAs. We successfully eliminated the vast majority of notorious bad public housing projects, replaced them with mixed income or lower density public housing, and substantially with vouchers, and greatly upgraded management in many large cities. Voucher reform supported expansion in the number of families assisted by half a million between 1997 and 2003.

With respect to public housing improvement and replacement, in addition to replacing the worst projects, HUD eventually implemented the ability for housing authorities to borrow against receipt of future capital money. About $2.2 billion has been approved after an extensive HUD process, of which about $1.3 billion was for three transactions.

With respect to self-sufficiency and deconcentration of poverty, the replacement of those large distress projects helped. Further, the percentage of families with children in both programs, where their largest source of income was earnings, increased from about a third to about half between 1995 and 2001, and remained significantly higher than before that period. Those changes though almost certainly result more from economic trends and welfare reform than from the act. The percentage of extremely low-income families we serve in the programs increased somewhat in both programs.

With respect to public housing management, we've seen vast improvement in a number of large cities such as Washington here, Chicago and Philadelphia. The improvements mostly were brought about by local or HUD initiatives rather than the act. Some of the act's basic provisions to bolster management were delayed for years in implementation or otherwise did not have the expected impact. The act and related HUD actions did encourage improvements in physical conditions in public housing, and expedited obligation of capital funds.

For vouchers, cost has been the dominant issue lately. The increase in pre-unit costs relates partly to measures taken in the act or by HUD to address concerns that some families who receive vouchers were not successfully finding units, still were paying unreasonable percentages of their incomes for rent, or finding units only in areas with high-poverty concentrations.

I have some general recommendations for your to-do list, as the chairman called it. First, your work generally should emphasize the importance of these programs and their need for adequate funding.

Second, the subcommittee should examine additional steps HUD could take to collect, analyze and release critical data that will help us monitor the progress in these programs.

Third, the subcommittee should examine further opportunities for HUD to expedite reform. Regulations still are not in place with respect to significant aspects of the act. These include, among others, rules to allow aspects of leveraging capital for public housing and for housing authorities' voluntary conversion of public housing to vouchers. HUD needs to finish the guidance job in a manner that supports the reforms. The subcommittee also should examine

how HUD could simplify requirements further. For example, the approval process for borrowing against future capital funds needs to be streamlined and the new regulatory emphasis on management of individual properties, rather than the entire PHAs, must be implemented with substantial flexibility.

Fourth, with respect to potential legislative issues, the committee should review whether initiatives such as loan programs can reasonably be expected to replace the Hope VI grant program. The subcommittee also should consider the need for further initiatives to sustain and increase leveraging of private capital funds. The administration, several years ago, proposed a mechanism for property-based financing along the same lines other affordable housing improvements are financed, and that approach should be reviewed again.

Finally, the subcommittee should review areas where experience indicates that statutory simplification is critical. This will include, I think, public housing rent requirements, which are very complex. More generally, Congress should aim to require local performance and retain in the measures protecting fundamental program elements, continued availability of units, income targeting of families to receive assistance, and affordability of Government assisted housing, and otherwise leave plenty of room for local innovation.

Mr. Chairman, thank you again, and I'll be pleased to respond to any questions.

[The prepared statement of Mr. Solomon follows:]

Testimony of Rod Solomon

for the

Subcommittee on Federalism and the Census,

House Committee on Government Reform

February 15, 2006

Testimony of Rod Solomon

Mr. Chairman and Subcommittee members, thank you for the opportunity to testify. I am Rod Solomon, now with the law firm of Hawkins Delafield & Wood LLP here in Washington. I served at HUD from 1994 to 2003, in the Office of Public and Indian Housing, with responsibility for the development with Congress and then the implementation of public housing reform legislation. Immediately before HUD, I served for 14 years in executive positions at two large housing authorities. Last year, the Brookings Institution pushed my report entitled "Public Housing Reform and Voucher Success: Progress and Challenges," which reviews our progress under the 1998 law.

These oversight hearings should be welcomed. The public housing and voucher programs provide housing for over three million American households, and Congress needs to carefully track progress under these programs. The housing destitution left by Hurricanes Katrina, Wilma and Rita has been a grim reminder of both the importance of these two programs and the critical, differing role each can play.

Reasons for the Public Housing Reform Law

Enough progress has been made in the public housing and voucher programs that it is easy to forget the critical need for public housing reform agreed upon a decade ago. Although the voucher program has received the most attention lately, reform was sought mostly for the public housing program. By the mid-1990s, a consensus had emerged that in too many instances public housing failed to provide quality, affordable housing to the Nation's neediest families. The Nation's worst public housing developments housed poor minority families in isolated blocks of high-rises or overwhelming concentrations of low-rise buildings. Conditions at these developments were so corroded that they attracted drug and criminal activity. The management of public housing in many large cities had become abysmal, resulting in neglect of even the most basic building repair and maintenance needs. Because of these and many other factors, the best possible role models in public housing--working families--had mostly left.

The Reform Legislation

Public housing and voucher reform legislation began with a series of important provisions enacted in annual appropriations acts in the mid-1990s, and culminated with the Quality Housing and Work Responsibility Act of 1998, which I will call the Act. The Act codified and broadened the appropriations act reforms, to the extent that it became the most comprehensive overhaul of these programs since their inception. It consists of many individual initiatives--my reports tracks progress on 54 separate provisions. At the same time, Congress distilled its intent into seven different strategies for achieving public housing and voucher reform, which are included at the end of my testimony. Because those strategies are often cross-cutting, my report reviewed progress under the Act with respect to four broader objectives:

1. Improving or replacing the public housing stock;

2. Promoting self-sufficiency and poverty deconcentration;

3. Improving or replacing public housing management; and

4. Improving the voucher program.

Some of the Act's most basic reforms relative to each objective were:

Public housing stock: repeal the "one for one replacement" requirement, under which public housing authorities (PHAs) only could demolish or depose of public housing if each unit were replaced with another "hard unit" of public housing; establish a flexible public housing Capital Fund, and allow borrowing against future Capital Fund appropriations; allow mortgages of PHA property and other leveraging steps to promote use of private capital and mixed-financed public housing developments; authorize the HOPE VI program to replace or revitalize severely distressed public housing; and require conversion of distressed public housing to vouchers, and allow conversion of other public housing to vouchers with HUD approval.

Self-sufficiency and deconcentration: revamp the public housing rent structure to be more supportive of work efforts; encourage targeting of supportive services toward program recipients; require public housing community service; authorize the HOPE VI program to promote poverty deconcentration; repeal federal "admissions preferences," which contributed to poverty concentration by directing assistance to the most destitute families; adopt flexible income targeting for public housing, where families often will be housed at large low-income multifamily complexes, and maintain substantial income targeting to the poorest families for the voucher program, where families can use the vouchers to rent affordable apartments throughout their communities; authorize site-based public housing waiting lists; and require development-by-development public housing poverty deconcentration.

Public housing management: require changes in the public housing performance evaluation system to include more emphasis on resident living conditions; require receiverships for failed PHAs; provide fundamental deregulation to support asset and property management, such as the repeal of the one for one replacement requirement and repeal of federal admissions preferences already mentioned; require a "PHA Plan" to promote community participation; impose various other mandates to promote self-sufficiency or for other purposes; require and promote "One Strike" screening and eviction policies; and allow an alternative regulatory structure under which cities could negotiate performance plans for PHAs (called "Home Rule").

Section 8 Vouchers: require consolidation of the certificate and voucher programs; eliminate regulatory requirements that were inconsistent with market practices; allow PHAs to adopt flexible payment standards for setting subsidy levels; establish a voucher renewal baseline; establish various management performance requirements; and authorize specific initiatives such as homeownership and project-based vouchers.

Progress Since Enactment

Prior to examining progress by each objective, I will make some general observations. First, in over seven years since the Act was passed, Congress has made almost no further legislative changes. The biggest changes have come about through the appropriations process, notably in the means of funding the voucher program.

Second, even after seven years, regulations are not in place with respect to significant aspects of the Act. These include among others the rules with respect to aspects of leveraging private capital for public housing, on which not even a proposed rule has been issued, and for a PHA's voluntary conversion of public housing to vouchers. Other parts of the Act that Congress thought to be key at the time, such as receiverships for failed PHAs and the Home Rule provision, for various reasons have had minimal effect.

Third, as I will discuss further, the great progress that has been made in these programs during the past decade has occurred as a result of numerous actions of HUD, the PHAs, and others that are both related and unrelated to the Act.

Fourth, we should not become lost in the details and fail to recognize the sea change that has occurred in these programs and in many of the PHAs that administer them, both in public housing and in vouchers. In the public housing programs, we successfully have eliminated the vast majority of notorious bad projects and replaced them with mixed-income or lower-density public housing and substantially with vouchers, and have greatly upgraded management in many of our large cities. Voucher reform supported expansion in the number of families assisted by about 500,000 between 1997 and 2003, an expansion almost half the size of the entire public housing program.

With respect to public housing improvement and replacement, the repeal of the one for one replacement requirement, coupled with HOPE VI, other leveraging tools, and required conversion of distressed public housing to vouchers, resulted in major change for the better. Virtually all of the legendary bad projects, such as Cabrini Green and Robert Taylor Homes in Chicago, Haynes Homes in Newark, Allen Parkway Village in Houston and many others, are gone. Over 175,000 units have been approved for demolition or disposition, and about 135,000 actually demolished or disposed of. Replacement in large part is with vouchers, but also with mixed-income or lower-density public housing. In addition, HUD approved $2.2 billion of PHA borrowing against receipt of future capital funds after extensive process, of which $1.3 billion was for three transactions. On the other hand, HUD has yet to implement some of the Act's important measures to provide additional flexibility in leveraging public housing assets, and Congress, supported by the Administration, severely reduced funding for HOPE VI.

With respect to self-sufficiency and deconcentration of poverty, the Act reduced poverty concentrations by the replacement of distressed public housing, including with vouchers. This has reduced the tragic warehousing of families where children were growing up amidst gunfire and hopelessness, such as that documented in Chicago in Alex Kotlovitz's compelling 1991 book *There Are No Children Here*. It is less clear whether the Act directly improved the self-sufficiency of public housing or voucher residents. The percentage of public housing and voucher families with the largest source of income coming from earnings increased greatly from 1995 through 2001, from about one third to about half in both programs, and remains much higher than prior to this period, but their real median incomes did not increase appreciatively. Many families went from welfare to work, at least in part, but those families' incomes on average remained "extremely low" by our definition.

Moreover, the improvements in self-sufficiency may be more attributable to the then-improving economy and welfare reform than to provisions of the Act. The percentage of

residents whose largest source of income is earnings, not surprisingly, has tracked economic trends to an extent. Finally, the contribution of the Act's public housing rent incentives is unclear. These measures, taken together with rent requirements of other laws and regulations, have resulted in a rent system that is very burdensome to administer, and the incentives may be compromised because they are not understood or lost in the morass of rent calculation details.

With respect to public housing management, both HUD and individual communities made substantial and successful efforts. As a result, many large-city PHAs, such as Chicago, Washington, D.C., Philadelphia, and a number of others, are substantially better managed today than prior to the reforms. For the most part, however, these efforts occurred independently of the Act. HUD's implementation of the new performance system, called the Public Housing Assessment System or "PHAS," was delayed several years by controversy, although it does appear to have had a positive impact on physical conditions of the Nation's public housing. The Act's most demonstrative penalty for poor management--mandatory receivership--was not implemented until recently. Alternative management and regulatory arrangements authorized by the Act largely were not tried, although a number of PHAs opted for private management of some or all of their public housing. A number of the Act's initiatives, regarding rent calculations, community service, and other provisions, resulted in more rather than less administrative burden. But increased flexibility in the areas of demolition and replacement, tenant selection and leveraging funding clearly supported improved management.

With respect to vouchers, the Act provided a sound basis for the program's expansion. The consolidation of the certificate and voucher programs and elimination of unnecessary rules resulted in a more streamlined, market-driven program and encouraged landlord participation, and the additional flexibility to set voucher payment standards helped many families find acceptable housing. To an extent, the additional per-unit cost of the program relates to these initiatives and HUD initiatives along the same lines. These initiatives were undertaken to address concerns that families receiving vouchers were not successfully finding units, in some instances were paying unreasonable percentages of their incomes for rent even if they had vouchers, and were finding housing only in areas with high poverty concentrations.

Recommendations for the Programs and for the Subcommittee's Work

My report made a number of specific recommendations, mostly for HUD but in some instances for Congress, that would assist in achievement of the Act's purposes and in the further improvement of the public housing and voucher programs. I have attached a list of the issues and recommendations that the report included, as well as its overall conclusion.

More generally, there are some matters I believe the Subcommittee should review or emphasize as it examines progress in these programs. First, the Subcommittee's work should emphasize the importance of the public housing and voucher programs and their need for adequate funding, even in these difficult budget times.

Second, the Subcommittee should examine additional steps HUD can take to collect, analyze, and release critical data that will enable better monitoring of the progress and impact of these important public housing and voucher reforms should be examined. For instance, little data is collected on the demolition and replacement of public housing units

outside of HOPE VI, the status of relocated families, and the effectiveness of replacement vouchers. As another example, more focus is needed on the impact of the public housing rent incentives. HUD's required annual reports on the impact of important aspects of the Act have been useful, but extremely late and not made widely available.

Third, the Subcommittee should examine further opportunities for HUD to expedite reform. HUD needs to finish the job of completing the necessary regulations or guidance, in a manner that supports the reforms--for example, to allow for the full range of tools for leveraging funds. The Committee should support HUD's needs for staff to accomplish this, and stress that HUD should stabilize and simplify regulatory and approval requirements wherever possible. For example, the approval process for borrowing against future capital funds needs to be expedited and streamlined, and the new regulatory emphasis on management of individual properties rather than entire PHAs must be implemented with substantial flexibility.

Fourth, with respect to possible Congressional action apart from funding:

(A) The Subcommittee should highlight the need for a program such as HOPE VI, to provide the grants necessary to leverage funds that can contribute substantially to poverty deconcentration and the turnaround of neighborhoods, and provide additional support for those relocated. These grants cannot be replaced effectively by loan programs, and can be a catalyst for the best practices nationally in leveraging of private capital for public housing.

(B) The Subcommittee should examine the need for further initiatives to sustain and increase leveraging of private capital funds. For example, the Bush Administration proposed a "Public Housing Reinvestment Initiative" several years ago to allow property-based financing of public housing along the lines other affordable housing is financed, but Congress did not enact it and the Administration did not pursue it further. The Millennial Commission and the Harvard Cost Study advanced similar concepts.

(C) The Subcommittee should promote program simplification and added flexibility. This particularly includes the need to replace complex public housing rent provisions with simpler provisions aimed at achieving similar affordability and incentives. Additional measures also are needed to eliminate or streamline various provisions of the Act, or to make the Act's initiatives more workable. More generally, Congress' future actions should aim to require local performance and require by statute the fundamental program elements--continued availability of units, income targeting of families to receive assistance, and affordability of government-assisted housing--and otherwise to leave plenty of room for local innovation.

(D) The Subcommittee should highlight the basic success of the voucher program, and advocate for any necessary cost and other reforms that are consistent with promoting that success.

In summary, we must recognize the great progress that has been made over the last decade in the public housing and voucher programs, complete the job of fully activating the tools available, monitor results, and carefully remedy these programs' shortcomings. The Subcommittee can make an important contribution toward achieving those goals, and I appreciate the opportunity to help you make that effort.

Attachments

The Act's Stated Purpose and Strategies[1]

"PURPOSES - The purpose of this title is to promote homes that are affordable to low-income families in safe and healthy environments, and thereby contribute to the supply of affordable housing, by -

(1) deregulating and decontrolling public housing agencies, thereby enabling them to perform as property and asset managers;

(2) providing for more flexible use of Federal assistance to public housing agencies, allowing the authorities to leverage and combine assistance amounts with amounts obtained from other sources;

(3) facilitating mixed income communities and decreasing concentrations of poverty in public housing;

(4) increasing accountability and rewarding effective management of public housing agencies;

(5) creating incentives and economic opportunities for residents of dwelling units assisted by public housing agencies to work, become self-sufficient, and transition out of public housing and federally assisted dwelling units;

(6) consolidating the voucher and certificate programs for rental assistance under section 8 of the U.S. Housing Act of 1937 into a single market-driven program that will assist in making tenant-based rental assistance under such section more successful at helping low-income families obtain affordable housing and will increase housing choice for low-income families; and

(7) remedying the problems of troubled public housing agencies and replacing or revitalizing severely distressed public housing projects."

[1] This language constitutes Section 502(b) of the Act.

Issues and recommendations listed in "Public Housing Reform and Voucher Success: Progress and Challenges" (Brookings Institution, January 2005)

A. Improving or replacing the public housing stock

Issues

1. The HOPE VI program has been put on the federal chopping block

2. The aggressive demolition and disposition of public housing could result in the elimination of viable units, which were not adequately replaced

3. Data is insufficient to track all important aspects of public housing redevelopment

4. HUD's commitment to replace public housing is unclear

5. The capital fund financing initiative is extremely valuable but has been limited by unsettled HUD requirements, processing bottlenecks, and constraints on borrowing for some small PHAs

6. The Bush administration proposed, but then dropped after encountering congressional opposition, an innovative proposal to leverage additional capital and promote property-based financial discipline

7. The lack of completed regulations and guidance continues to limit PHAs' options for transforming their public housing

8. The combination of HUD's insistence on detailed transaction approval processes and limited staffing resources slows implementation of mixed-finance, capital fund borrowing, and other initiatives

Recommendations

1. HOPE VI should continue at a restored funding level; emphasis should be on moving the projects in the pipeline and improving the fate of relocated residents

2. HUD should track, compile, and release additional data on demolition and replacement housing on programs other than HOPE VI, relocated families, and replacement vouchers

3. The demolition and disposition approval process should be examined carefully to ensure that the results are positive for affordable housing

4. HUD should fully support PHAs' efforts to produce replacement public housing

5. The capital fund financing initiative should be supported further by streamlining and settling the processing requirements and providing the necessary staff resources

6. PHRI or a similar property-based capital financing mechanism should be enacted and implemented

7. HUD should complete the regulations or guidance to allow the act's full implementation

8. HUD should expedite processing through a more wholesale approach and adequate staffing

B. Promoting self-sufficiency and poverty deconcentration

Issues

1. Families' progress toward self-sufficiency has been considerable as measured by workforce participation, but less so in terms of increased income

2. The act's rent changes have complicated an already complicated rent system and raised equity issues, without clearly demonstrating effectiveness

3. Data and analytical gaps handicap assessment of the self-sufficiency and poverty deconcentration initiatives

4. The act's community service requirement continues to meet with great resistance

5. The impact of the act's increased public housing admissions flexibility remains unclear

6. The success of efforts to address concentrated poverty may be limited primarily to HOPE VI developments

7. Recent administration proposals to turn rental vouchers into block grants, if enacted, would eliminate the Brooke amendment rent protections and income targeting

Recommendations

1. Several of the act's specific rent provisions can and should be simplified, without changing their purpose or their cost

2. Broader rent simplification should be pursued, consistent with the general parameters of the Brooke amendment

3. HUD should evaluate progress on self-sufficiency and poverty deconcentration

4. The act's community service requirement should be a local PHA option

5. HUD should more actively encourage PHAs to leverage supportive service funds

6. The public housing and voucher programs should continue to play an important supportive role in promoting family self-sufficiency

7. A range of strategies, including substantial capital improvements for many developments, must be used to lessen concentrated poverty

8. Proposals to eliminate rent-setting and income-targeting requirements in the voucher program should be rejected

C. Improving or replacing public housing management

Issues

1. HUD's performance evaluation system for public housing remains flawed

2. The act's mandatory receivership remedy for troubled PHAs has not been implemented

3. The act's mix of deregulation and additional directives has resulted in important additional flexibility, but the mix is sometimes difficult to administer

4. The local accountability process has not been fully streamlined

5. The Bush administration has proposed a new demonstration program for public housing deregulation with questionable parameters

6. The move to a property-based management and financial system could be very beneficial, but will pose regulatory and management challenges

D. Recommendations

1. The public housing assessment system must be settled, improved, and fully implemented

2. The act's mandatory receivership remedy for troubled PHAs should be implemented, and Congress should add further flexibility

3. Congress and the administration should pursue further program streamlining and simplification

4. Any new public housing demonstration should be narrowly focused, and not be substituted for broader, but carefully defined, statutory changes to increase local flexibility

5. The conversion to property-based management should proceed, but with substantial regulatory flexibility

D. Improving the voucher program

Issues

1. The enormous expansion in voucher use has been reversed and could deteriorate further under new funding laws

2. The causes and possible justifications for the voucher program's cost increases need further objective analysis and attention

3. Based on shifting rationales, the administration has proposed to use block grants to fund the voucher program

4. The effectiveness of certain aspects of the voucher program remains a concern

Recommendations

1. A funding system related to actual lease experience should be enacted, with reasonable flexibility and funding to allow PHAs to lease their baseline allotment and to provide more flexibility surrounding overleasing

2. The analysis of the per-unit program cost increases, and the possible benefits of those cost increases, do not justify fundamental program restructuring beyond simply cutting back housing assistance

3. The basic national voucher program parameters should not be lost in favor of a block grant concept, even if funding must be reduced

4. Incremental program improvements must occur

General recommendations (from Brookings Institution report)

The next several years will be dominated by funding struggles. If these are not resolved favorably for public housing and vouchers, various points made in this paper will be moot. This paper rests on the assumption that the nation can provide adequate funding to support successful public housing and voucher initiatives, notwithstanding the budget crunch.

Leaving funding aside, even if there are no further statutory changes, the act's implementation will broaden and evolve substantially. This evolution ultimately will allow its purpose to be accomplished more effectively than is currently the case, and the interim grades may be raised if HUD takes several steps suggested by this review.

Generally, HUD should address comprehensively the extent to which important information on the act's effects is unavailable, uncompiled, unanalyzed, or not released. Although this paper has mentioned some specific shortcomings of publicly released data and analysis, this problem exists for many other aspects of the act. Both better and more accessible information and more analytical work are needed on

- Progress on public housing conditions and vacancy levels;
- The extent of PHA management efficiency;
- The extent of leveraged funds obtained outside of HOPE VI redevelopment efforts, including for supportive services;
- The quality of recent demolition and disposition applications;
- PHAs' use of discretionary authority, such as site-based waiting lists;
- The effect of specific act provisions, such as earned income disregards and local cooperation agreements with welfare and employment agencies;
- Changes in characteristics of landlord participation in the voucher program (e.g., participation by landlords and inclusion of larger buildings).

Gaps also exist in data and analysis regarding some characteristics of both public housing and voucher families and their neighborhoods. In the future, the following data and information should be addressed

- The impact of HOPE VI and mixed-finance developments on the sites' original residents (to add to substantial work already undertaken);
- "Quality of life" results at non–HOPE VI developments and their neighborhoods, where substantial income mixing or change in the mix of working and nonworking families has been achieved (e.g., impact on crime rates);

- Demographics and self-sufficiency progress of new and long-standing public housing residents, with HOPE VI separated from other developments;

- Trends and reasons for families leaving assisted housing; and

- Success in locating units, poverty deconcentration, and rent burden of voucher holders.

This paper has identified a number of other ways HUD could improve implementation and expedite reform. These include

- Promptly completing its regulatory or guidance tasks so that the tools provided in the act are fully available and all authorized subsidy and program alternatives can be fully used;

- Staffing or outsourcing the act's initiatives appropriately, including possibly using HUD's non–public-housing staff who are familiar with individual property and asset-based management to supplement HUD's public housing staff;

- Simplifying or streamlining requirements wherever plausible (e.g., with respect to high-performing PHAs), taking into account program risks;

- Advocating for legislation and funding that will better leverage funds, including on a property basis through proposals such as PHRI, to address remaining comprehensive public housing site revitalization and replacement needs; and

- Working to address voucher cost concerns in a manner that is more supportive of established and legitimate program goals.

Finally, even though the act is still being implemented, several areas of concern that require congressional attention. These include

- Oversight, including hearings on both the overall implementation of the act and implementation of the property-based management initiative;

- Continued funding of HOPE VI, where the grants and leveraged funds can contribute substantially to poverty deconcentration and the turn-around of neighborhoods, and to additional support for those relocated;

- Enactment of a capital leveraging mechanism along the lines of PHRI and possibly other additional capital leveraging tools, particularly in view of continuing funding constraints;

- Program simplification and added flexibility, including replacing complex public housing rent provisions with simpler provisions aimed at achieving similar affordability, and additional measures to eliminate various unproductive provisions or to make the act's initiatives more workable; and

- Continued support for the voucher program's mission and basic parameters.

To paraphrase Mark Twain, reports of public housing's reform may be exaggerated, but substantial progress has been made. The public housing program has been removed from life support, and the expanded and effective voucher program must not be undermined. We must recognize the progress that has been made, complete the job of fully activating the tools available, monitor results, and carefully remedy the program shortcomings. After six years' experience with implementation, this is a good time to begin.

Mr. TURNER. Mr. Egan.

STATEMENT OF CONRAD EGAN

Mr. EGAN. Thank you, Mr. Chairman, and Mr. Clay and Mr. Dent, for the opportunity to present today principally as to former executive director of the congressionally chartered Millennial Housing Commission. With your permission, I would like to place the Commission's report into the official record of this hearing. Thank you, sir.

In the report the Commission presented to Congress in May 2002, there are two recommendations to improve public housing and the Housing Choice Voucher Programs. At this point I would also like to particularly acknowledge the leadership of Ophelia Basgal and Renee Glover, who were two public housing authority directors present as commissioners on the Millennial Housing Commission, and particularly Renee Glover, who was the chair of our Public Housing Committee. Of course, you heard her earlier today and you know what kind of contribution she's made, not only to the national housing scene, but also particularly in Atlanta.

First, the Commission recommends a gradual transition from the current agency-based system to a property-based system with subsidies falling to specific properties based on the rents they would command after any needed renovation in the conventional real estate market. This transformation would enable public housing authorities to rehabilitate properties using funds raised in the private capital markets.

Second, the Commission recommends principally for the Housing Choice Voucher Program, measures to match voucher holders with services that complement efforts to support employment and other opportunities, and this challenge, of course, came up earlier today in this hearing. Most importantly, though, the Commission asserts that the Housing Choice Voucher Program is distinctly worthy of additional funding in substantial annual increments.

In the remainder of my statement let me focus on the first recommendation where the Commission specifically recommends the application of private real estate principles. First, a comprehensive approach is recommended for severely distressed properties. Some public housing properties are in such poor condition or so poorly located that they do not warrant additional involvement. These properties are good candidates for demolition and replacement with vouchers of hard units. The Hope VI program must be maintained principally because the private sector is typically unable to provide the first-in capital necessary to attract additional significantly greater investments for these properties, and I also would like to acknowledge, as Renee Glover did earlier today, the recently introduced legislation by Senators Bond and Mikulski to significantly improve and reform the Hope VI program.

Second, much of the remaining public housing inventory would shift over time to the property-based financing model by converting operating and capital funding to long-term contracts linked to each public housing property. These contracts would provide reliable funding to cover operating costs, debt service on loans for capital costs and replacement reserves. Subsidy levels would be based on each property's market rent. Capital improvements would be fi-

nanced through loans secured by a mortgage, which could be backed by FHA mortgage insurance. No additional support would be necessary for the majority of public housing properties.

Property-based financing is not, however, appropriate in all cases. For small properties and for those whose capital needs required rent substantially above market-based rent levels, the alternatives include using the Hope VI program, agency-based financing, and additional housing development vehicles, including the long-term housing tax credit and housing grant programs. Public housing authorities should therefore continue to be able to leverage some of their subsidy funds by using various agency-based mechanisms. A property-based financing strategy would be appropriate for most properties and has several merits.

The long-term costs of this capital improvement approach would likely be lower than the current approach. Improvements can occur quickly before properties deteriorate further, and finally, property-based financing provides another level of operational oversight from lenders and investors, thus substituting standard real estate practice for HUD oversight.

I would also like to emphasize the point that Secretary Cisneros made earlier, that it is important to keep the units that are going to be moved from some of these sites, and I would glad to comment further on that during the question and answer period.

The Millennial Housing Commission's basic recommendation in this area is that the public housing authorities must be permitted and encouraged to utilize the private sector's financial resources by converting their developments to a property-based model like the rest of the world of real estate.

Thank you, Mr. Chairman, for the opportunity to make this presentation.

[The prepared statement of Mr. Egan follows:]

STATEMENT of CONRAD EGAN

PRESIDENT, NATIONAL HOUSING CONFERENCE

TO THE

HOUSE GOVERNMENT REFORM SUBCOMMITTEE on FEDERALISM and the CENSUS

FEBRUARY 15, 2006

Thank you for the opportunity to present today, principally as the former Executive Director of the Congressionally chartered Millennial Housing Commission (MHC).

In the report the MHC presented to Congress in May, 2002, there are two major recommendations to improve Public Housing and Housing Choice Voucher Programs, which are summarized below:

"Transform the public housing program.

Public housing agencies (PHAs) are encumbered by federal regulations that undermine local decision-making authority and make it difficult for PHAs to provide quality housing to low-income families. For example, the centralized system of public housing funding—wherein funds flow to PHAs as a whole and not to individual properties—makes it difficult for PHAs to finance needed capital improvements through the private markets. Meanwhile, federal funding for such activities has fallen short by approximately $20 billion to date. To transform the program, the MHC recommends a gradual transition to a project-based approach, with subsidies flowing to specific properties based on the rents that units would command after any needed renovation. This transformation would enable PHAs to rehabilitate properties using funds borrowed in private markets. If feasible, obsolete properties could be repositioned using the HOPE VI

program. The recommendation also addresses troubled agencies, the program's overly complicated rent structure, and the disproportionate regulatory burden on small PHAs."

"Expand and strengthen the housing choice voucher program.

The voucher program serves 1.6 million households and is for the most part highly successful. In some markets, however, program administration and regulatory complexity create an effective disincentive for private owners to accept voucher-holding tenants, especially when owners can instead rent to unsubsidized tenants. The Commission recommends increased authority for local program administrators to change payment standards in response to market conditions, and, recognizing the versatility of the program, it proposes measures to match voucher holders with services that complement efforts to embrace employment and other opportunities. Additional recommendations strengthen and enforce the requirement that owners of housing produced with federal assistance accept voucher-holding households—including extremely low-income households, for whom the Commission recommends a special type of voucher—in all cases subject to a local cap to encourage deconcentration of poverty. Finally, the Commission asserts that the voucher program is distinctly worthy of additional funding in substantial annual increments."

In the remainder of my statement let me focus on the first recommendation where the MHC recommended the application of private real estate principles, specifically:

"Over time, public housing's physical inventory and population would shift to the project-based Section 8 model. This entails converting operating and capital funding to a long-term Section 8-type contract linked to each public housing property rather than to a PHA, as is currently done.

The contract would provide reliable funding to cover operating costs including asset and property management costs, debt service on loans for capital costs, replacement reserves, and debt service insurance. Subsidy levels would be based on each property's market rent. To be eligible for such a contract, the PHA would pledge to retain some specified income targets for the property."

"A more comprehensive approach is recommended for severely distressed properties in order to preserve the housing and neighborhood, as well as to restore dignity to current residents. A severely distressed property generally has multiple physical and social problems. The physical problems include age (some properties are more than 50 years old), inadequate or failing infrastructure, extremely small and inadequate rooms, and other design deficiencies. Compounding the physical deterioration of these severely distressed properties is the social pathology characteristic of high-poverty neighborhoods that is often manifested by poor school performance, low education levels, high crime rates, high unemployment rates, and longer average tenancy. Given the blighting effect of these large, severely distressed properties, most of the neighborhoods in which they are located have suffered from decades of disinvestment.

The HOPE VI program must be maintained as both a preservation and production tool. In addressing severely distressed properties, HOPE VI must be the first money in, because the private sector does not have the resources to address the predevelopment costs to acquire a buildable site. Under current regulations, HOPE VI funding pays only for public housing-related costs (including the relocation, demolition, site remediation, and construction costs for public housing-assisted apartments) and leverages non-public housing funds to pay for the non-public housing costs. The latter costs make up the larger share of development budgets."

"To complete the transition to this new public housing model, capital improvements would be financed through loans secured by a mortgage, which could be backed by FHA mortgage insurance. No additional guarantees should be necessary for the majority of public housing properties, whose market rents would fully support the debt service to bring the property to acceptable quality standards. Likely lenders would include commercial and mortgage bankers and, in some states, housing finance agencies. Credit enhancers would include FHA and the GSEs.

While some public housing properties need no new capital investment, others are in such poor condition or are so poorly located that they do not warrant additional investment. These properties are good candidates for demolition and replacement with vouchers or hard units, depending on input from community stakeholders, including public housing residents, as well as analysis of local markets and housing conditions.

A debt financing strategy has several merits. The long-term costs of this capital improvement approach would likely be lower than the current approach. An added benefit is that improvements can occur quickly, before properties deteriorate further. Finally, debt financing provides another level of operational oversight from lenders, thus substituting standard real estate practice for HUD oversight and regulations.

Debt financing is not, however, appropriate in all cases. For small properties, the ratio of transaction costs to overall debt makes this type of financing impractical. A more suitable approach for these properties would be to use existing capital grant programs or to front-load direct grants.

For properties whose capital needs require rents substantially above market-based levels or Section 8 fair market rents, the alternatives include:

- Using the HOPE VI program to revitalize properties that are well located but in poor condition or otherwise obsolete, and
- Granting PHAs full access to all housing development vehicles including debt financing and tax credits, as well as new loan and grant programs."

The Millennial Housing Commission's basic recommendation in this area is that the Public Housing program must be permitted and encouraged to utilize the private sector's financial resources by converting the developments to a property based model, like the rest of the world of real estate.

Mr. TURNER. Dr. von Hoffman.

STATEMENT OF ALEXANDER VON HOFFMAN

Mr. VON HOFFMAN. Thank you, Mr. Chairman, and members of the subcommittee for this opportunity. As a historian I am delighted, not to say even surprised, that our elected representatives are crafting policies by trying to understand how we got here. The history of public housing is long and complicated, but I would pull from three major lessons, which I hope will guide future policies. These are just broad strokes as it were.

The first lesson would be that the intentions of the original public housing advocates offer inspiration for today's programs. The program we have today is not necessarily what its creators intended. The original advocates, in the 1930's, conceived of public housing as varied, as flexible, as democratic, and locally controlled, more bottom-up than top-down. Instead of a monolithic agency they envisioned an assortment of entities, local governments, unions and nonprofits developing and managing public housing. The residents were to have a large say in what went on in their developments because they were to be represented in the organizations that actually developed the public housing.

There were to be a variety of types of housing, rentals, cooperatives and homeownership, and the originators of public housing wanted to replicate the vital community life of America's neighborhoods and small towns. Early prototypes, for example, contained kindergartens, playgrounds, community centers and stores, which was intended to create a sense of community and function as communities.

So the public housers certainly did not get everything right, but I think some of their core ideas are worth incorporating today. So thinking of that, if we think how to implement their idea of variety, public housing authorities should form partnerships with nonprofit and for-profit housing developers. It's very interesting how in sync some of these ideas are with what happened with Hope VI and the 1998 reforms. To implement the idea of flexibility, housing authorities should become entrepreneurial, try many approaches, as Renee Glover had done in Atlanta, perhaps developing mixed income housing in which market-rate units subsidize low-income units. Authorities could sell old properties and use the profits from that to develop new hard units, or they could be like the Cambridge Housing Authority in my hometown, and create low and moderate-income assisted living facilities. They're all new horizons that could be reached.

To implement the idea of democracy, I would hope we continue to encourage as much resident participation as feasible, as was originally envisioned. Just some examples, a number of cities have preserved the Expiring Use Housing recently by assisting tenants to buy their buildings and run them as cooperatives, cooperatives, which were an important element in the original public housing ideal.

And then to implement this idea of community existing in new housing developments would continue and expand on incorporating community facilities and services, even going so far as stores and work places.

The second major lesson in policy history is that circumstances change and we should be prepared to adjust when they do. For example, the clientele for public housing has changed dramatically over the years. The assimilated immigrants and middle-class African Americans, who were the first tenants, were gradually replaced by low and extremely low-income households, often single mothers with nowhere else to go. Today circumstances are changing again. Low-income people, like everyone else, are moving to the suburbs, and these communities may not be prepared. We should encourage housing authorities to form regional alliances to help solve the new emerging regional housing problems.

At the same time, immigration has raised the number of foreign-born low-income residents, who often are unaware of their housing choices. We should make every effort to incorporate poor immigrants into appropriate housing programs.

And the third lesson I would draw from history is that a single policy, even a good one, is not a panacea. For much of its history, public housing adhered to a kind of environmental determinism that held that modernist style high-rise slabs or low-rise barracks would solve all their residence problems. But people thrive in a variety of housing types, and one should avoid, even if it's new urbanist, a single formula for architecture. Recently, many embraced the idea that mixed-income housing will cure concentrations of poverty. This will do some good, but mixing extremes of incomes will not cure the complex problems of people, who for reasons of health or family situations, are chronically unemployed.

Another popular cure-all is homeownership. Again, some low-income families will benefit from buying houses, but others may find it too burdensome to keep up mortgage payments and maintain a property. In short, it will take not one, but an array of approaches to solve low-income housing needs of people who may have multiple problems.

There's much more to be learned from the history of housing, but I hope that these observations are helpful to the committee as it goes about its task of planning for the future.

Thank you.

[The prepared statement of Mr. von Hoffman follows:]

STATEMENT of ALEXANDER VON HOFFMAN

SENIOR FELLOW, JOINT CENTER FOR HOUSING STUDIES, HARVARD UNIVERSITY

TO THE

HOUSE GOVERNMENT REFORM SUBCOMMITTEE on FEDERALISM and the CENSUS

FEBRUARY 15, 2006

Thank you, Chairman Turner and the members of the subcommittee, for the opportunity to testify today. I am honored and, as a historian, delighted that our elected representatives are crafting policies for the twenty-first century by trying to understand how we got where we are.

In the short time I have available, I will try to make a few observations about the history of low-income housing policy, the pitfalls of not adjusting to changed circumstances, and suggest that some of the original ideals of public housing may provide some broad policy goals for the twenty-first century. To supplement this statement with more detail, I would like to submit as part of my statement to the subcommittee a copy of an article I wrote entitled, "High Ambitions: The Past and Future of American Housing Policy," first published in *Housing Policy Debate* 7:3 (Fall 1996).[1]

The federal government entered the housing arena permanently during the Great Depression of the 1930s. Under the administration of Franklin D. Roosevelt, the government passed laws—such as the National Housing Act of 1934—to help save the private housing industry, particularly the lenders of home mortgages such as savings-and-loan associations. But the Roosevelt administration also made housing part of social policy. First the federal government tried an experimental public housing program as part of the 1933 public works bill and through the passage of the Wagner-Steagall Act of 1937 permanently established public housing in the United States. In the intervening 69 years, the government has pursued a variety of housing initiatives for the benefit of low-income Americans, including programs to subsidize private developers of low-income housing, provide low-income households with rental vouchers, and assist nonprofit developers. Through it allthe original public housing program has persevered, although it has experienced some perilous times, and today there are approximately 1.3 million households living in homes managed by 3,300 housing authorities.

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[1] Reprinted in Wolfgang Preiser and David Varady, eds., *Future Visions of Urban Public Housing* (New Brunswick, N.J.:Center for Urban Policy Research Press at Rutgers University, 1998).

Some of public housing's resilience can be traced to the nature of support for the program: bipartisan and from diverse sections of the country. A primary leader in the drive to get the 1937 law passed was a Republican Cleveland city councilor and state legislator named Ernest J. Bohn. Another was a Catholic priest, the Monsignor John O'Grady, who was the director of Catholic Charities. The Senate bill that eventually became the Housing Act of 1949, which restarted public housing after the war and established the urban renewal program was sponsored by a coalition of two Democrats—Robert Wagner of New York and Allen J. Ellender of Louisiana—and one Republican, in fact, "Mr. Republican," as he was known, Robert Taft of Ohio. Such bipartisan support for low-income housing was responsible for the passage of the Quality Housing and Work Responsibility Act of 1998, and continues to this day.

ORIGINAL INTENTS

In considering the future of public housing, it is worthwhile to consider what it was supposed to be. Few Americans realize that the public housing program of the last thirty or forty years is quite different than the program the reformers who campaigned originally envisioned.

The "public housers" as the program's advocates were known, conceived of a program that was flexible, varied, democratic and locally controlled. The housing would be developed and managed by an assortment of entities—local governments, unions, and nonprofit and limited-profit organizations. The housing residents would be represented in or belong to these organizations. The residents would have a large say in their housing developments. There was to be a variety of types of housing, tenure, and financing. Most units were to be rental apartments (most Americans rented in those days), but there were also to be cooperatives, and eventually some of the public housing leaders embraced home ownership.

Public housing was intended to be a large-scale program for the masses of Americans Its proponents hoped to launch a comprehensive effort to shelter both middle-class and low-income Americans, who made up a majority of the population. (Depression-era wages forced many middle-class and some upper-middle-class citizens to become part of the working poor.) The idea of such a large-scale public housing program was plausible because private housing industry was flat on its back in the depression—a time when capital and credit were extremely tight and mortgage foreclosure rates were skyrocketing.

Thus, public housing was not supposed to be a poverty program. The original public housers—several of whom were social workers—knew that the very poor were the most difficult group to help and feared that a housing program for the truly indigent would likely fail. For this reason, the authors wanted to house the working poor and middle class first before tackling this difficult class of tenant.

The idea of community was central to the original concept of public housing. The promoters of public housing hoped to replicate the vital community life of America's big city and small town neighborhoods. In the prototypes and early housing developments,

they included day-care facilities, kindergartens, playgrounds, laundries, community centers, and stores in public housing developments.

Not everyone, even all supporters of public housing, shared this expansive view of the program. Most political support inside and outside the government came from the idea that the public housing would clear slums and replace them with good solid homes. The 1930s was a time when many, perhaps most, Americans lived in outmoded and substandard shelter—overcrowded slums, apartments and houses with outdoor privies (not indoor toilets), and shoddily built houses. The idea of slum clearance was popular across the political spectrum, and it provided the basis of support for public housing that led to its enactment in law.

WHAT HAPPENED

As happens with a lot of legislation, the process of creating a law created a good program, but not what the proponents first had in mind.

Rather than the decentralized and varied system the supporters of public housing had envisioned, the process of garnering support and satisfying the courts on constitutional questions created the present system: a federal agency that provides financial support and directives to local authorities that develop and manage public housing projects. The fundamental structure, based on long-term contracts between the federal government and housing authorities, has proved durable. Early on, however, the top-down nature of this relationship created tensions, and over time as Congress and federal housing officials added more guidelines, the system became increasingly rigid. Local authority officials came to feel almost completely hamstrung in what they could practically do, to the point where even minor renovations—such as adding roofed entrances—seemed impossible.

Public housing, as we know, did not become a large-scale or entitlement type of program. The Congress imposed income limits on public housing tenants as well as limits on the costs of building construction, which narrowed the focus of the program. In addition, the first director of the federal public housing agency exceeded even Congress's wishes in containing construction costs, urging local authorities to save money by eliminating expendable features such as doors and cabinets in public housing apartments. The austere approach combined with the simple modernist-style design helped create a stark image, which people began to associate with the poor.

Eventually public housing suffered from competition from the private market. The private housing industry in the 1930s had sought and found for help from the federal government, particularly in mortgage insurance and brokering. By the 1950s the Federal Housing Administration and the Veterans' Administration mortgage programs had succeeded in making suburban single homes affordable to the middle class.

A CHANGE IN CLIENTELE

At the same time, the clientele for public housing changed. In the early years, most tenants were assimilated immigrants and African Americans who worked and had middle-class values and aspirations. After the war, the movement of lower-class rural

migrants—white, black, and Hispanic—to America's cities changed the population of inner-city neighborhoods. The civil rights movement helped break down the residential segregation of racial minorities, particularly African Americans, giving members of minority groups a wider range of possibilities for choosing neighborhoods to live in. Working people often preferred to live in old apartment buildings or houses. Particularly in large cities, people began to think of public housing as the housing of last resort, the place for people who were very poor, down on their luck, or overwhelmed by personal problems.

The building of the suburbs further impoverished the population of inner-city neighborhoods and public housing projects by luring away middle-class families. At first, in the 1950s, primarily whites left, but from the 1970s onwards, great numbers of blacks also moved to the suburbs. The exodus of working and middle-class people left clusters of low- and extremely low-income households in public housing projects and inner-city neighborhoods, where drugs, violence, out-of-wedlock pregnancies, and other social pathologies seem to hold sway. Policymakers now began to focus on how to break up "concentrations of poverty."

PROPERTY MANAGEMENT BECOMES A MAJOR PROBLEM

Public housing, especially the high-rise projects in big cities, suffered. As tenants became poorer and vacancies increased, rents no longer covered the costs of maintenance, as they were intended to do in the original public housing program. Housing authorities were forced to skimp on operating expenses and buildings began to deteriorate. In 1968, Congress, led by Senator Edward Brooke, a Republican from Massachusetts and the first black elected to the Senate in the twentieth century, authorized subsidies to local housing authorities to pay for operating expenses.

Yet Washington also required that people uprooted by urban renewal or highway construction be admitted into the public housing projects. For this reason or because they were desperate for tenants, some authorities began to allow families with problems of instability, violence, and alcoholism to live in the projects. In short order, property management became a major problem.

Public housing, which had been originally created to cure the slum, had become, in many people's minds, a slum itself. Yet within public housing projects, it was hard to get ahead. Convinced that simply providing adequate shelter was an end in itself, housing authorities turned their back on social services that were needed now more than ever. Rules about income limits discouraged residents from getting married or disclosing any income they might earn. Other regulations forbade from the premises the jobs and businesses (such as daycare, hairdressing and nail salons, and car repair) that poor residents ran in order to make ends meet. Some authorities fell into paralysis or corruption and had to be put in receivership.

NEW APPROACHES TO LOW-INCOME HOUSING

Starting in the 1960s, the government has adopted a number of alternative approaches to helping low-income Americans find adequate shelter, which are mentioned briefly below.

Private Market Low-Income Housing Programs
The Kennedy and Johnson administrations initiated subsidies of various sorts to subsidize private market developers who built housing for low-income households. Many of the mortgages have been successful, although some had financial problems, including with property management when developers underestimated operating costs and overestimated rents from low-income tenants. Unlike public housing, however, contracts under these programs were set to expire after a term of years. Because owners may choose not to continue to accept subsidies for low-income tenants, the expiration of contracts each year now threatens to remove thousands of units from the subsidized low-income rolls.

Rent Supplements
In the 1970s, policy makers in the Nixon administration favored the idea of directly providing tenants with housing allowances gathered and instituted them in the Section 8 program. President Ronald Reagan expanded greatly the use of housing vouchers. With approximately 1.9 million households receiving them, Housing Choice Vouchers, as they are now called, have become more prevalent than public housing units. Their advantage is that they allow individual households to find housing on the open market, instead of being restricted to subsidized units in a particular place. Their potential disadvantage is that very low-income people may cluster in the same neighborhoods, creating new "concentrations of poverty."

Community Development
The Housing and Community Development Act of 1974 broke new policy ground by authorizing community development block grants to replace an assortment of aids, such as urban renewal, to local governments. Subsequent acts in 1977 and 1990 encouraged local governments to use the community development block grants to assist nonprofit groups—many called community development corporations (CDCs)—to develop and maintain low-income housing as well as operate other programs ranging from aftercare to job training. Unrestrained by the maze of rules that govern public housing, CDCs can impose responsible management policies, mix the incomes of their tenants, and run a variety of community and self-improvement programs on the premises of their projects.

Along with public housing, the array of low-income housing programs and types of agents that deliver them has begun to produce a system that at least in spirit resembles what the early public housers dreamed of creating in the early twentieth century.

BACK TO THE FUTURE
Two recent programs point the way to the future, paradoxically by returning to some of the original principals of public housing.

Transforming Public Housing—HOPE VI
To solve the dilemma of the worst crime-ridden and deteriorated public housing projects, Congress passed the HOPE VI program in 1993. Under this innovative initiative, the Department of Housing and Urban Development (HUD) and local housing authorities have demolished unpopular and dangerous high-rise apartment projects, replaced them

with normal-looking houses on normal city streets, and rented to responsible families with a range of low incomes, not just those below the welfare poverty line. HOPE VI encouraged authorities to strengthen a sense of community within housing developments. Under HOPE VI, public housing developments have established community centers that offer childcare, training, recreation, and healthcare, much in the spirit of the ideals of the original public housing program. In addition, the program has allowed public housing authorities to form partnerships with nonprofit agencies and commercial developers. As an novel approach to public housing, some HOPE VI projects have had their share of delays and muddles, but many—such as the Townhomes on Capitol Hill (formerly Ellen Wilson Homes) here in Washington, D.C. or the Villages of East Lake in Atlanta, Georgia—are showcases.

Quality Housing and Work Responsibility Act of 1998

In 1998 the Congress enacted a new initiative to reinstate some flexibility in the public housing program, while also taking into account the recently passed welfare reform bill efforts at encouraging individual responsibility. Among other provisions, the Quality Housing and Work Responsibility Act of 1998 gave residents choices about methods of calculating rents and local authorities some flexibility for setting rents. The law repealed the mandatory admissions policies that had hampered the ability of housing authorities to screen for responsible tenants. It also encouraged authorities to let to tenants with a mix of incomes, so as not to concentrate poverty. While it insisted that physically able tenants that did not work or go to school, perform 8 hours of community service, it also allowed authorities to let residents keep pets. The law loosened the federal strings by allowing housing authorities to form joint ventures with other authorities, form and operate wholly owned subsidiaries, and own mixed finance projects. This law clearly embodied an effort to spread the innovations of HOPE VI, at least some of which in turn hark back to the early days of the public housing program.

LESSONS FROM THE PAST: THE PITFALLS OF PANACEAS

If there is one general weakness that emerges from the history of public housing—and it is by no means unique to this area of policy—it is the tendency to seek panaceas for complex social problems. In the housing area, the panaceas usually take some form of environmental determinism.

For much of its history, many in the public housing field have adhered to a form of environmental determinism that holds that simply placing people in well-designed homes will solve their problems. This led to modernist-style designs that placed first low-rise and then high-rise buildings on "superblocks" isolated from rest of the city. When problems occurred in the isolated high-rise projects, policy makers embraced the opposite belief that taking people out of such places would automatically help them. People who take pride in their living quarters certainly feel better about themselves, but they can thrive in a variety of types of homes. It is wise to avoid a single formula for architecture.

In the effort to avoid the possible effects of concentrations of poverty, many in the housing field have embraced the idea of mixed-income housing development. In its more moderate form, this idea makes a great deal of sense. Following the HOPE VI and the

Quality Housing Act of 1998, public housing officials have set aside units for varying income levels in low-income housing projects. The more extreme versions of mixed-income housing call for combining population groups that differ radically in class from one another. Like the earlier environmental determinism enthusiasms, the arguments for this policy are vague about precisely how the poor will benefit from living next to wealthy neighbors with whom they have little in common. (One can imagine certain circumstances in which the influence might flow the other way, with low-income teenagers versed in urban ways have an effect on youth from upper-income families.)

Another means for achieving mixed-income housing depends upon geographical dispersal of the low-income families to well-to-do suburbs. Low-income families may gain much in the way of services in such affluent places, and if families wish to go there, they should be helped to do so, with Housing Choice Vouchers perhaps. But, as a new study published by HUD confirms, a change of location—no matter how good that location may be—will not by itself solve the complex of problems of people who for reasons of physical or mental health or family situations are chronically unemployed.[2]

Similarly, some believe that homeownership will cure all that ails low-income families. Again for some this may be an excellent choice, but it is not a panacea for all social ills. It is important to distinguish housing problems due to low income from other more deep-seated problems.

SOME RECOMMENDATIONS FOR A TWENTY-FIRST-CENTURY PUBLIC HOUSING PROGRAM

1. Allow more flexibility within the public housing program. Build on the initial efforts of the HOPE VI and Quality Housing and Work Responsibility Act of 1998 and learn from the nonprofit sector, which has been so creative in the last twenty years.
    a. Housing authorities should form partnerships with nonprofit and for-profit developers to create new attractive low-income housing.
    b. With the ongoing movement of low-income people to the suburbs, housing authorities should join regional alliances to help solve regional housing problems.
    c. Housing authorities should become more entrepreneurial. They should try innovative approaches. Ideas might include extending their budgets by developing mixed-income housing in which market-rate units subsidize low-income units or perhaps even selling old properties and buying or developing new ones.
2. Maintain the ideal of community. Low-income people, like the rest of us, depend upon family members and friends. Housing programs for particular buildings—such as the public housing and Section 8 construction programs—should as much as possible encourage helpful bonds with neighbors both inside the housing

[2] Joanna M. Reed, Jennifer Pashup, and Emily K. Snell, "Voucher Use, Labor Participation, and Life Priorities: Findings from the Gautreaux Two Housing Mobility Study," *Cityscape* 8:2 (2005), 219-239.

developments and outside in the neighborhood. The kinds of community activities introduced in the HOPE VI program should be extended wherever possible.

3. Allow and encourage people to increase their incomes without penalties. Be flexible in enforcing income limits, so that a family that has begun to get ahead will not be penalized. Property management depends upon having reliable tenants, so it generally will help to retain such tenants at least until such time as they are ready to move to homeownership or another location.
4. Continue to make public housing program as democratic as feasible, with resident participation in the process.
5. When planning new developments, plan also how those developments will be sustained and managed over the long term. The problem of expiring use buildings and the many examples of poor property management over the course of the last forty years should be a caution for the future.
6. Avoid the panacea pitfall. No one approach will solve low-income housing needs, and there are no shortcuts to helping people with a lot of problems.

Mr. TURNER. Thank you.
Dr. Olsen.

STATEMENT OF EDGAR O. OLSEN

Mr. OLSEN. Thank you, Mr. Chairman. I welcome this opportunity to talk with you and the members of your committee about the future of the public housing program. I speak from the perspective of a taxpayer who wants to help low-income families, albeit, a taxpayer who has spent more than 30 years studying the performance of housing programs.

My testimony is right up the alley of this committee. It concerns how to get more for the money spent on current programs. In the case of public housing it's possible to get much more. The evidence on program performance indicates that the housing voucher program has outperformed the Public Housing Program in every respect. My written testimony mentions some of this evidence and contains references to the papers and reports that provide the details.

The largest difference between housing vouchers and public housing is in their cost for providing equally good housing. The evidence is unanimous that it costs much less to provide equally good housing with housing vouchers than with public housing projects. Therefore, shifting the budget for public housing to housing vouchers will allow us to serve all of the families served by public housing equally well, that is, provide them with equally good housing for the same rent, and serve hundreds of thousands of additional families. Alternatively, it would allow us to serve current recipients much better without spending any more money, or equally well at a much lower taxpayer cost.

The 1998 Housing Act made a small step in that direction. My testimony describes a much more significant initiative that would gradually lead to the elimination of the public housing program in its current form. It's important to realize that the poor performance of the Public Housing Program relative to the Housing Voucher Program is not due to differences in administrative competence. Both are administered by the same local public housing agencies. At HUD, the Secretary for Indian and Public Housing oversees both programs.

The difference in performance is due to fundamental differences in the design of the programs. The voucher program relies on the incentives of recipients to get the best housing possible for the money spent on it. Public Housing Program relies on civil servants, who have weak incentives for good decisions and who do not even know whether they have made bad decisions unless their decisions are extraordinarily bad.

My proposal requires no additional Federal funds. It's a proposal to better use the funds and assets currently available to public housing agencies. New legislation is needed to realize the large gains that would result from a major shift of resources from public housing to housing vouchers. The following proposal will achieve these large gains in an orderly fashion.

First, Congress should require every local housing agency to offer each current public housing tenant the option of a portable housing voucher or remaining in its current unit on the previous terms. The

latter option ensures that no public housing tenant will be harmed by this legislation. Families that accept a voucher would benefit because they would move to housing, neighborhoods, and/or locations that they prefer to their public housing units. Housing agencies should be required to pay for the vouchers from their current operating and modernization subsidies. This ensures that each housing agency receives the same amount of Federal money as it would have received under the current system.

My proposal would not require housing agencies to sell their projects beyond the current requirements. However, it would allow them to sell any of their projects to the highest bidder. Requiring sale to the highest bidder will produce the most money to operate and modernize the housing agency's remaining projects.

Many housing agencies would surely choose to sell their worst projects. These are the projects that would be abandoned to the greatest extent by public housing families that are offered vouchers, and they are the projects that will be the most expensive to renovate. When a project is sold, the remaining tenants in that project should be offered the choice between vacant units and other public housing projects of a housing voucher.

When public housing units are vacated for whatever reason, the housing agency should be allowed to charge whatever the market will bear for them. This will provide additional revenue to housing agencies without additional Federal subsidies. More importantly, it will make their revenues depend in part on the desirability of the housing that they provide. The absence of this connection is the primary source of the excessive cost of the Public Housing Program.

When a current public housing tenant either gives up its voucher or leaves its unit without a voucher, the housing agency should be required to offer a housing voucher to a family from its public housing waiting list, using its existing preference system. This ensures that the housing agency will continue to provide housing assistance to the same number of families, and indeed, the same types of families.

If the preceding proposal is adopted, the Public Housing Program in its current form will wither, but public housing agencies will do a much better job helping low-income families with their housing.

I appreciate the willingness of the members of this committee to listen to the views of a taxpayer whose only interest in matters under consideration is to see that tax revenues are used effectively and efficiently to help low-income families.

[The prepared statement of Mr. Olsen follows:]

Whither Public Housing?

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Subcommittee on Federalism and the Census

Hearing entitled
"Living in America: Is Our Public Housing System Up to the Challenges of the 21st Century"

February 15, 2006

Whither Public Housing?

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Testimony before the House Committee on Government Reform
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February 15, 2006

Chairman Turner and members of the House Government Reform Subcommittee on Federalism and the Census, I welcome this opportunity to provide my views on the future of the public housing program. I speak from the perspective of a taxpayer who wants to both help the less fortunate members of our society and see that the money currently appropriated for this purpose is well used. I have no other interests in the matters under consideration at this hearing.

My views are influenced not only by this perspective but also by my knowledge of the systematic evidence about the performance of low-income housing programs. I have been involved in housing policy analysis since the late 1960s. Since then, I have done many empirical studies of the effects of low-income housing programs, and I have read a very large number of other studies. My publications include a lengthy survey of what is known about the effects of low-income housing programs for a 2003 National Bureau of Economic Research volume on means-tested transfer programs in the United States and articles in professional journals on the effects of public housing, the adequacy of Fair Market Rents in the Section 8 Housing Voucher Program, the effects of different types of housing assistance on participant earnings and employment, and the causes of homelessness.

During the Nixon Administration, I was an analyst on the Housing Policy Review Task Force that led to the Section 8 Housing Certificate Program. As a visiting scholar at HUD during the Carter Administration, I worked on an evaluation of this program and reviewed the final reports from the Experimental Housing Allowance Program. More recently, I did a substantial amount of work as a consultant to the GAO on their study

comparing the cost-effectiveness of tenant-based vouchers and the major active construction programs such as the Low Income Housing Tax Credit and HOPE VI.

My testimony is right up the alley of this committee. It concerns how to get more for the money spent on current programs. In the case of public housing, it is possible to get much more. The evidence indicates that it costs much less to provide equally good housing with housing vouchers than with public housing projects. Therefore, shifting the budget for public housing to housing vouchers would allow us to serve all of the families served by public housing equally well (that is, provide them with equally good housing for the same rent) and serve hundreds of thousands of additional families. Alternatively, it would allow us to serve current recipients better without spending more money or equally well at a lower taxpayer cost. The Quality Housing and Work Responsibility Act of 1998 (QHWRA) made a small step in that direction. However, it did not go nearly far enough to realize large gains. This paper proposes a much more significant initiative that would gradually lead to the elimination of the public housing program in its current form.

Housing Vouchers Have Outperformed Public Housing

The housing voucher program has outperformed the public housing program in every respect.[1] The voucher program has a much lower total cost for providing equally good housing. It offers recipients a much wider range of choice among units that meet HUD's minimum housing standards. Over most of the life of a public housing project, public housing units are worse than the units occupied by voucher recipients. The public housing program has had a larger work disincentive effect than housing vouchers. Unlike housing vouchers, public housing projects have typically made their neighborhoods worse places to live.

The largest difference between different housing programs is in their cost for providing equally good housing. The evidence is unanimous that it costs much more to provide equally good housing with any program of unit-based assistance than with the housing voucher program.[2] Traditional public housing was especially bad in this regard, and

[1] Olsen (2003, pp. 394-427) provides the most comprehensive summary the evidence on the performance of different housing programs. Olsen (2006, pp. 14-15) reports estimates of the difference in the desirability of public housing units and units occupied by housing voucher recipients. Patterson et al. (2004) and Olsen et al. (2005) provide the best evidence on the work disincentive effects of low-income housing programs.

[2] Olsen (2006, pp. 9-17) summarizes the evidence. Olsen (2000) provides a description and critical appraisal of the data and methods used in these studies as well as a summary of their results. In the best studies, market rent

HOPE VI is the least cost-effective active production program.[3] The studies with detailed information about the characteristics of the housing provided find that public housing costs between 64 and 91 percent more than housing vouchers to provide equally good housing. The only study of the cost-effectiveness of HOPE VI found an excess cost of 27 percent even though it omitted major elements of the cost of this program. Most notably, the opportunity cost of the land was omitted from the cost of HOPE VI projects. This is a real cost to society of providing housing under the program. Furthermore, public housing projects receive substantial local property tax abatements. The HOPE VI results ignore this cost to local taxpayers.

Tenant-based housing vouchers have another major advantage over public housing in addition to providing equally desirable housing at a lower cost. Voucher recipients have much greater choice among units meeting HUD's minimum housing standards than families offered public housing units. With a voucher, a recipient can occupy any unit meeting HUD's minimum housing standards that the family can afford with the help of the subsidy. These units differ greatly with respect to their characteristics, neighborhood, and location. Assisted families whose options are the same under the voucher program are not indifferent among the units available to them. Each family will choose the best available option for their tastes and circumstances. Since all of these units are adequate as judged by reasonable minimum housing standards, restricting their choice further serves no public purpose. The public housing program severely restricts the choice of families offered a unit. At most, a family can decline three offers before being dropped from the waiting list. Restricting choice to three particular units serves no public purpose. If the subsidy is the same, it is reasonable to expect voucher recipients to be significantly better off than they would be in their assigned public housing unit.

The empirical evidence on program performance and the advantages of housing vouchers compared with any type of unit-based assistance in providing recipients with choice imply that shifting resources from the public housing program to housing vouchers would

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is used to measure the desirability of the housing within a single housing market. This is an overall index that captures the desirability of the neighborhood and location as well as the size, amenities, and condition of the dwelling unit.

[3] The studies of traditional public housing are U.S. Department of Housing and Urban Development (1974, Chapter 4), Mayo et al. (1980), and Olsen and Barton (1983). U.S. General Accounting Office (2001, 2002) provides results for HOPE VI.

allow us to better serve current public housing tenants without spending any additional money. My testimony contains a proposal to achieve this goal. With simple modifications, the proposal could simultaneously achieve this goal, increase the number of families assisted, and reduce taxpayer cost.

It is important to realize that the poor performance of the public housing program relative to the housing voucher program is not due to differences in administrative competence. Both are administered by local public housing agencies. At HUD, the Assistant Secretary for Public and Indian Housing oversees both programs. The difference in performance is due to fundamental differences in the design of the programs. The voucher program relies on the incentives of recipients to get the best housing possible for the money spent on it. The public housing program relies on civil servants who have weak incentives for good decisions and who do not even know whether they have made bad decisions unless their decisions are extremely bad. Due to the deep subsidy, they can fill their projects even if they provide poor oversight of their workforce and make bad decisions about what maintenance and modernization to undertake.

Budget-Neutral Proposal to Offer All Public Housing Tenants a Housing Voucher

In light of the evidence on program performance, the most important provisions of QHWRA required public housing agencies to voucher out some of their projects under certain circumstances and allowed them to do it under other circumstances. Unfortunately, HUD has been slow to implement these legislative provisions. More than seven years after the passage of this legislation, the final regulations have not yet been issued. Furthermore, the proposed regulations are unlikely to lead to much vouchering out of public housing. New legislation is needed to realize the large gains that would result from a major shift of resources from public housing to housing vouchers. The following proposal will achieve these large gains in an orderly fashion.

Congress should require every local public housing agency to offer each current tenant the option of a portable housing voucher or remaining in its current unit on the previous terms. This option insures that no public housing tenant is harmed by the legislation. Families that accept a voucher would benefit from this initiative. They will move to housing, neighborhoods, and locations that they prefer to their public housing units. Housing agencies

should be required to pay for the vouchers from their current public housing operating and modernization subsidies. This insures that each housing authority receives the same amount of federal money as it would have received under current system. Housing agencies should be allowed to charge whatever rent the market will bear for the units vacated by families that accept the voucher offer and sell any of their projects to the highest bidder. This will generate the maximum amount of money to operate and modernize their remaining projects. Since the devil often is in the details, the remainder of my testimony deals with some of the more important details.

The most important requirement of the proposal is that each housing agency must offer a housing voucher to each family currently living in a public housing project. The payment standards for families of each size (that is, the subsidy to a family with zero adjusted income) need not be the payment standards of the regular Section 8 Housing Choice Voucher Program. However, the legislation should specify a method for determining the payment standards to prevent housing agencies and civil servants from thwarting its purposes. For example, a housing agency could thwart the purposes of the legislation by offering such a small voucher subsidy that few, if any, public housing tenants would accept it. Civil servants could thwart its purposes by writing regulations that allowed small voucher subsidies. Alternatively, a housing agency could set payment standards so high that it could not fund the vouchers with its entire public housing operating and modernization budget and then argue for additional subsidies for that reason. A reasonable set of payment standards for families of different sizes is a set that would use all of the housing agency's operating and modernization subsidies if all public housing tenants accepted the vouchers. A set of payment standards that satisfies this criterion is easily calculated.

Another design issue is whether the voucher option should be available to current public housing tenants indefinitely. Placing no time limit on their exercise of the voucher option maximizes their choice. Since I favor maximizing the choices of assisted families within the constraints of the current budget, I favor this option. If housing agencies are allowed to have a time limit, legislation should require them to give current public housing tenants a substantial amount of time to exercise the voucher option, say at least six months. Since many households in public housing have school-age children and moving during the school year is difficult for these families, the voucher offers should be made in the early

spring so that families with vouchers can move into their new apartments during the summer. For the same reason, when public housing projects are sold, the deadline for vacating the units should be early in the summer after the end of the school year.

The HUD-funded Moving to Opportunity for Fair Housing Demonstration Program ("MTO") provides some insight into the fraction of public housing tenants that would accept the voucher option.[4] In MTO, there were two experimental groups and one control group. All participants lived in public housing projects in a census tract where the poverty rate exceeded 40 percent prior to the experiment. Nationally, about 36 percent of public housing tenants live in neighborhoods with such high poverty rates (Newman and Schnare, 1997, Table 3). The experiment offered families assigned to the control group no alternative to their current circumstances. One experimental group was offered regular Section 8 housing vouchers. The other experimental group was offered Section 8 vouchers on the condition that the family must move to a neighborhood with a poverty rate less than 10 percent and remain there for at least a year. About 62 percent of the families offered regular Section 8 vouchers as an alternative to staying in their public housing unit used the voucher and left public housing (Orr et al., 2003, p. 26). This surely exceeds the fraction of all public housing tenants that would accept a regular Section 8 voucher because public housing tenants in lower poverty neighborhoods live in better neighborhoods and better housing. Nevertheless, it is clear that hundreds of thousands of public housing tenants would accept vouchers as generous as regular Section 8 vouchers. The payment standards for the vouchers proposed earlier would be less generous than regular Section 8 vouchers. So the takeup rate would be lower for these vouchers.

My proposal would not require housing agencies to sell their projects beyond what will be required under the final regulations implementing the relevant QHWRA provisions. However, it would allow them to sell any of their projects to the highest bidder, and many housing agencies would surely choose to sell their worst projects. With uniform vouchers offered across all of a housing agency's projects, it is reasonable to expect that the fraction of all public housing tenants that accept the vouchers would be greatest in the worst projects. These are the projects that would be the most expensive to renovate up to a specified quality level. They are the types of projects that have been demolished under the HOPE VI program

[4] See Orr et al. (2003) for a description of the experiment and a summary of its results to date.

and that Congress intended to voucher out under the QHWRA. So the proposal is consistent with clear Congressional intent in this regard.

When a project is sold, the remaining tenants in that project should be offered the choice between vacant units in other public housing projects and a housing voucher. The housing agency should be required to use a small fraction of the proceeds of the sale to provide each family that is required to move with a modest moving allowance that depends on family size.

When public housing units are vacated for whatever reason, the housing agency should be allowed to charge whatever the market will bear for them. This will provide additional revenue to housing agencies without additional government subsidies. More importantly, it will make their revenues depend in part on the desirability of the housing provided. The absence of this connection is the primary source of the excessive cost of the public housing program. Although the proposal will not eliminate the excessive cost, it should reduce it. It will provide a greater incentive for efficient operation.

Under current law, occupancy of vacated public housing units would be limited to families eligible for low-income housing assistance. Given the socioeconomic characteristics of the families living in public housing and the condition, amenities, and locations of these projects, this restriction would surely have little impact. For a family of four, the upper income limit for eligibility is 80 percent of the local median income of all families. It is unlikely that many families with higher incomes would want to live in most existing public housing projects. Current law also requires that at least 40 percent of new tenants of public housing projects have incomes less than limits based on 30 percent of the area's median income. This requirement might reduce the maximum rent that the housing agency can charge for its vacated units, but this does not affect the proposal in any fundamental way. Each housing agency should charge the highest rent that the market will bear for its vacated units subject to satisfying the income targeting requirement.

Each year some current public housing tenants that have not accept the proposed vouchers will move from their units without these vouchers. For example, some will get jobs that pay so much that they are no longer eligible for housing assistance, some single mothers will get married and their household income will make them ineligible for housing assistance, and some will be offered a preferred unit in a private subsidized project or a regular Section 8

voucher. Public housing agencies should charge the highest rent that the market will bear for these vacated units subject to satisfying the income targeting requirement. This will increase their reliance on revenue from their tenants to pay the expenses of operating public housing projects.

Each year some public housing tenants that used the proposed vouchers to leave their public housing units will give up these vouchers for the same reasons that some tenants leave public housing. The money saved from their departure should be put into a fund to offer similar vouchers to public housing tenants that moved into public housing after the implementation of the proposed reforms. Priority should be given to the families that have been in their public units the longest. These are the families whose circumstances are likely to have changed the most since they moved into public housing. The recycling of voucher funds will insure that the tax money spent on public housing will continue to support at least as many families.

The findings on the cost-effectiveness of the HOPE VI program have clear implications for its future. This program should be terminated, and the money that would have been spent on it should be allocated to the much more cost-effective Section 8 Housing Choice Voucher Program. This shift in the budget for housing assistance would allow us to provide all of the families that would have lived in HOPE VI units with rental units of average quality and assist tens of thousands of additional families that would otherwise live in deplorable housing.

It might be argued that this recommendation ignores the positive effect of HOPE VI projects on their neighborhoods. HOPE VI projects are much more attractive than the housing projects that they replaced, the density of the housing is much lower, and families with higher incomes occupy some of the units built. Therefore, I would expect HOPE VI projects to make their neighborhoods more attractive places to live. However, the same effect on the neighborhood could be achieved at a small fraction of the cost of HOPE VI redevelopment by tearing down the old public housing project and building a park on the site. The savings could be used to provide housing vouchers to a larger number of low-income households than were served by the old public housing project, let alone the HOPE VI redevelopment of that project. Indeed, selling the old projects to the highest bidder would

surely lead to private redevelopment that would improve the neighborhood, and this would generate additional revenue to provide vouchers to even more households.

Conclusion

The preceding proposal will benefit many current public housing tenants without harming other public housing tenants and without greater cost to taxpayers. The public housing tenants that accept vouchers will obviously be better off because they could have stayed in their current units on the old terms. They will move to housing meeting HUD's housing standards that better suits their needs. Under this proposal, each housing agency will receive the same amount each year from the federal government as under the current system, and each will have the same assets, namely, the land and structures on which its projects are located. However, these assets will be better used, and the proposal would provide housing agencies with more money to better serve assisted families who remain in public housing. The additional money would come from selling their projects and charging market rents for the units vacated by current public housing tenants. The proposal would greatly facilitate the sale of projects that are not worth renovating. The requirement that these projects must be sold to the highest bidder insures that the land and structures are put to their highest valued use and maximizes the money available to help low-income families with their housing. The termination of the HOPE VI program and the transfer of its funding to the Section 8 Housing Choice Voucher Program will greatly increase the number of low-income families that receive housing assistance and live in adequate housing. Public housing agencies will gradually shed the dysfunctional public housing program of the twentieth century and focus their efforts in the twenty-first century on making their cost-effective housing voucher program even better. The public housing program will whither, but public housing agencies will do a much better job in helping low-income families with their housing without spending any additional money.

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Mr. TURNER. Dr. Stegman.

STATEMENT OF MICHAEL A. STEGMAN

Mr. STEGMAN. Thank you, Mr. Chairman. The views I express today are informed by almost 40 years of academic and professional activities in affordable housing and community development policy and practice, and by service in the administrations of both Presidents Carter and Clinton at the U.S. Department of Housing and Urban Development.

After addressing the issues of public housing's continuing role in the affordable system, I will respond to the specific questions you put to our panel. I refer you to my written testimony for more complete responses.

The public housing inventory peaked around 1991 at 1.4 million units. Over the following 10 years it declined by nearly 160,000 units, which was the size of the national public housing stock in 1983. Today the inventory is smaller still. Given its modest size, one might think that it would be hard to make a case for public housing's continuing importance. After all, 5 years ago, public housing accounted for less than 1 out of every 25 rental housing units in the country. But looked at another way, even at 4 percent of the national rental inventory, public housing accounted for nearly half of all rental units in the country renting for under $250 a month or less in 2001. And notwithstanding ongoing demolition and transformation campaigns, its value as an essential housing resource is likely to be even greater in the future because private rents are rising much faster than inflation, and much faster than the incomes of families who are on the lower reaches or rungs of the income ladder.

HUD's own latest figures for 2003 underscore this point. There were only 78 affordable units for every 100 extremely low-income households in the country, while the ratio of available and standard units is much less, 33 units per 100 households.

The 1990's saw a series of fundamental changes in law and policy, including the creation of Hope VI, the introduction of mixed income and mixed financing opportunities and enactment of QHWRA in 1998. Taken together, I think these reforms have the potential to dramatically improve the lives of public housing residents and reconnect them with economic opportunity and reverse the fortunes of the very neighborhoods and communities that have been blighted by obsolete and dangerous projects.

As a result of these developments, in my view, public housing is more innovative and dynamic today than at any time in its 69-year history. So in partial answer to the question posed in the title to the hearing, while public housing is not yet fully up to the challenges of the 21st century, it has come back a long way in a relatively short period and continues to have a significant amount of untapped housing and neighborhood development potential. But it will only be able to fulfill that potential through deep, trusting, stable and adequately funded partnerships with residents, their communities, governments at all levels, and the private sector.

While each of these partnerships may be fraught with tensions, the public housing system can only be as strong as the weakest link in this chain of critical relationships.

And so, Mr. Chairman, as we look to the future, the greatest challenge public housing authorities face is living up to their obligations to become outstanding asset managers, so that by example they can demonstrate their worthiness of the large and long-term commitments it is so essential for their partners and would-be partners to make, because one of the most important roles of State and local government and community service organizations in the public housing system revolves around the provision of essential services. To public housing residents, it is important that this subcommittee grasp the depth of resident needs as it contemplates the importance of the partnerships that I alluded to.

Here is what a recent set of Urban Institute surveys found about the needs of families living in five representative Hope VI sites. There's no reason to believe that these families are much worse off or much better off than other families living in public housing and communities across the country. The mostly African-American women residents are very poor; 35 percent had incomes of less than $5,000 a year. Less than half were employed. And like their non-public housing counterparts, many cycled in and out of employment. Overall, their health was significantly worse than the average American adult; 41 percent reported their overall health was fair or poor, a rate over three times greater than self reports of a fair or poor health for all adults in the country nationally, and about twice that of Black women nationally.

Obesity, hypertension, diabetes, arthritis, asthma rates, were all higher than national prevalence rates. Almost half were diagnosed as obese. More than a third had been diagnosed with hypertension. The prevalence more than 30 percent higher than for Black women nationally. And one in eight Hope VI adults reported having an asthma attack in the past year, about three times the share of asthma attacks reported by a national sample of adults.

Mr. Chairman, public housing authorities alone cannot be expected to meet these urgent needs of their residents, but as PHAs transition out of the service business into the asset management business, because of staff shortages, budget constraints and lack of ongoing engagements, many existing local, public and private social service organizations are finding it hard to incorporate the needs of public housing communities into their priority work plans, and the impacts of budget cuts and community services, block grants, CDBG and other social services, eventually and inevitably come home to roost in public housing.

Mr. Chairman, 11 percent of CDBG goes into services, not bricks and mortar. The elimination of that program last year in the administration's proposal would have wiped out over $300 million of services that go to low-income people in low-income communities.

Finally, in terms of the role of capital markets in public housing, I'd say things are progressing nicely. I would take one exception to Mr. Wood's testimony about not counting private equity generated by the sale of low-income tax credits as part of private equity leveraged by public housing funds. When companies take the research and development tax credit, we don't count that as a Federal investment. We count that as private capital investment, and the same should be true with respect to the low-income housing tax credit. When you factor that into the Hope VI leveraging, we find

that only 53 percent, in one study only 53 percent of total project costs were Federal costs on Hope VI projects; 28 housing authorities, 49 Hope VI grants, only 53 percent of Federal capital, the rest private, including significant amounts of private mortgage capital.

Thank you very much.

[The prepared statement of Mr. Stegman follows:]

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before the

House Government Reform Subcommittee on Federalism and the Census on

Living in America: Is Our Public Housing System Up to the Challenges of the 21st Century?

Rayburn House Office Building
Room 2247

February 15, 2006

Thank you for inviting me to testify at this hearing entitled *Living in America: Is Our Public Housing System Up to the Challenges of the 21st Century?* The views that I express today are informed by almost forty years of scholarly and professional activities in affordable housing and community development policy and practice, and by my service in the administrations of both Presidents Carter and Clinton at the U.S. Department of Housing and Urban and Urban Development.

After providing the subcommittee with my perspective on public housing's origins and current trajectory, I will directly address the four questions that you have put to our panel.

Background

Public housing was first authorized by the U.S. Housing Act of 1937 as a depression-era program to create employment opportunities, stimulate the economy, remove slums, and provide low-rent housing to temporarily-out-of-work breadwinners and their families. Over the course of its sixty-nine year history, the program has seen many changes, including a virtual halt in new public housing production and a drastic change in tenant profile. As a result of changing economics, demographics and government policies, public housing gradually evolved into a program that served only the very poor.

The nation's 13,000+ public housing developments containing around 1.2 million units—located in big cities, small towns and rural America—are owned and operated by a network of more than 3,000 local public housing authorities (PHAs) under a complex set of federal rules and regulations. Long criticized as an anachronistic command and control system that suffers from a lack of market discipline and customer orientation, and a seeming inability to adopt modern asset management strategies that are common in the larger real estate sector, the public housing system has been further hampered by an on–again, off–again commitment by Congress to adequately fund its critical mission.

To put the public housing program in perspective, the inventory peaked around 1991 with 1.4 million units under Annual Contributions Contract. Over the following ten years, it fell by more than 11 percent, or by about 159,000 units, to a total of just over 1.25 million units, the same number of public housing units that existed in 1983. Today, the inventory is smaller still.

In 2001, public housing accounted for less than 4 percent of all rental housing in the nation, but nearly half (46.4 percent) of all low-rent units (those that rent for $250 a month or less.) And notwithstanding the ongoing demolition campaign, public housing's value as an essential housing resource is likely to continue long into the future. This is because rents are rising faster than inflation, and pressures for

above-average rent increases at the bottom end of the rental market are further eroding the supply of rental units that are affordable without government subsidies.

According to HUD's own latest figures, for 2003, "there are only 78.2 affordable units for every 100 extremely low-income households in the country. The ratio of *available* units is about half as great, 44 units per 100 households, and even among these available units, only three-fourths are physically adequate."

After decades of neglect and many years of experience with newer housing programs that were successfully enacted and funded on the simple fact that they *were not public housing*, over the last fifteen years or so, there has been a renewed interest in public housing reform on the part of Congress and successive administrations.

Whether this rekindled interest was due to the lackluster performance of successor programs, or a renewed appreciation of public housing's importance as a permanent low-rent housing resource, an unprecedented surge of energy, creativity, and entrepreneurial spirit was unleashed within the public housing enterprise during the past decade. The 1990s also saw a series of fundamental changes in law and policy—including the creation of the HOPE VI program, the introduction of mixed-income and mixed-financing opportunities, and enactment of the Quality Housing and Work Responsibility Act (QHWRA) of 1998. Taken together, these reforms have the potential to dramatically improve the lives of public housing residents, reconnect them with economic opportunity, and reverse the fortunes of the very neighborhoods and communities that have been blighted by obsolete and dangerous public housing projects. In my judgment, public housing today is more innovative and dynamic than at any other time in the history of the program.

Thus, in partial answer to the question posed in the title to this hearing, while public housing is not yet fully up to the challenges of the 21st century, it has come back a long way in a relatively short period, and continues to have a significant amount of untapped housing and neighborhood development potential. But it can only fulfill that potential through deep, trusting, stable, and adequately funded partnerships with residents, their communities, government at all levels, and the private sector.

While each of these partnerships may be fraught with tensions, as an institution, public housing can only be as strong as the weakest link in this chain of relationships. And so Mr.Chairman, as we look to the future, the greatest challenge public housing authorities face is living up to their obligations to become outstanding asset managers, and by example, demonstrate their worthiness of the commitments we are asking others to make on their behalf.

Mr. Chairman, you asked each member of our panel to respond to four specific questions having to do with the roles and responsibilities of government and

others to the public housing system. Mindful of the limited time we have to address these questions, I have combined a couple of the questions so as not to repeat myself.

1. **What is the proper role(s) of Federal, state and local governments in the public housing system?**

In my view, federal public housing reforms enacted under QHWRA set a useful and forward looking framework for guiding public housing into the 21st century. Looking ahead, the three most important federal issues are: 1) to recognize the critical role that public housing plays in the larger affordable housing system and not to use it as a straw man for ideological purposes; 2) adequately fund public housing's capital and operating needs in a timely manner; and 3) keep in mind that QHWRA joined public housing and housing vouchers at the hip. With respect to this last point, you will recall that one of QHWRA's goals is to reduce the concentration of poverty by broadening the range of incomes of those eligible to live in public housing.

Under QHWRA, the proportion of new public housing admissions with extremely low incomes was substantially reduced in order to boost the potential for more income diversity. QHWRA also allows housing authorities to accept higher levels of extremely low-income households into their voucher programs in exchange for fewer admissions of such households into their public housing programs.

Under new tenant-based Section 8 rules, at least 75 percent of new households assisted each year must be extremely low income, and depending upon how PHAs use the fungability provision discussed above, their voucher programs might be even more deeply targeted to the very poor. If the administration and congress revise the funding rules for the voucher program, or cut back on the number of vouchers under lease, these actions not only reduce the total number of assisted households at a time when housing cost burdens are rising, but also constrain the ability of PHAs to increase the economic diversity of their public housing programs.

One final point about the federal role has to do with the oft-repeated claim that public housing is the least cost-effective form of federal housing assistance; that the reams of red tape associated with its command and control type structure is a significant cause of its inefficiencies. With all due respect, Mr. Chairman, much of the red tape associated with these inefficiencies are promulgated by HUD and the Congress, which means that government is partly to blame for some of these cost disadvantages, and that those who impose undue burdens on the institution help create a self-fulfilling prophecy that public housing is grossly more costly than other forms of housing assistance.

Because the role of state and local governments and community service organizations revolve largely, though not exclusively, around the provision of

services to public housing residents and communities, I will preface my answer to the subcommittee's question on this issue, with a brief discussion of the results of a recent Urban Institute survey of the health and related needs of public housing residents living in a sample of HOPE VI public housing communities.

This seeming digression is important because it graphically illustrates the tremendous unmet needs of public housing residents—and meeting their employability, health, security, and educational needs must be a shared responsibility. It is not humanly possible for public housing authorities alone to meet these non-housing challenges without the kind of partnerships I mentioned earlier with established networks of public and private social service organizations, which are largely funded by federal, state and local governments.

- HOPE VI residents mostly African American women, are very poor, the vast majority; following their relocation, the Urban Institute found 35% of residents to have incomes of less than $5,000 a year; less than half were employed, and like their nonpublic housing counterparts, cycled in and out of employment;

- Overall the health of the HOPE VI sample was significantly worse than national rates—41% reported their overall health was fair or poor, a rate over three times greater than self reports of fair or poor health for all adults in US, and about twice that of black women nationally. These differences held across every age group;

- Obesity, hypertension, diabetes, arthritis and asthma rates were higher than national prevalence rates even when comparing the HOPE VI sample to other African American women nationally.

- Almost half the respondents were diagnosed as obese, more than one-third had been diagnosed with hypertension, the prevalence of diabetes is more than 30 percent higher than for black women nationally among HOPE VI sample, while one in eight HOPE VI adults reported having had an asthma attack in the past year—about three times the share of asthma attacks reported by a national sample of adults.

Two of the most maddening historical legacies of the old public housing system were that 1) the public housing authority was a good place to find loyalists patronage jobs, and 2) it wasn't the city's responsibility to provide security, or social services to public housing residents because this was FEDERAL housing. And so, with the implicit understanding that public housing developments were islands unto themselves rather than part of the fabric of our communities, it was left to PHAs to deal with the social problems of their residents without adequate resources or expertise, and to create their own police forces which drained scarce resources from

their housing maintenance and modernization programs. Thankfully, this archaic view of public housing is changing for the better. However, for a variety of reasons, including deep budget cuts in government social programs, many public and private social service providers have yet to fully integrate the urgent health and related needs of public housing residents into their priority service coverage. This is why seemingly unrelated funding cuts in federal social services programs flowing through the states, end up compromising the ability of public housing authorities to meet the challenges that this Subcommittee is addressing today.

How can the capital markets play in the system?

As we are all aware, for most of its 69 year history, public housing leveraged little private capital, with federally guaranteed bonds being fully amortized by federal annual contributions contracts; no private equity, no privately funded mortgages. With the development of HOPE VI and the introduction of mixed finance, mixed income developments, this is no longer the case. Through a variety of creative means, public housing transformations are being capitalized by a variety of public and private capital sources. This is a very positive trend.

A November 2002 GAO report found that for every dollar received in HOPE VI revitalization grants awarded through fiscal year 2001, PHAs raised an additional $1.85 in funds from other sources, including private capital and private equity raised through syndication of federal low income housing tax credits.

A 2003 study by the nonprofit Housing Research Foundation found similar results. Its study of 28 housing authorities that received a total of 49 separate HOPE VI grants found that the total of direct government financing from federal, state, county, and/or municipal sources, including the HOPE VI award, accounted for just over 53% of total project costs. Private equity generated from sale of Low Income Housing Tax Credits accounted for 27 % of total development costs. Fifty six percent of the developments used mortgages, mostly from commercial banks.

Finally, Mr.Chairman, as the Chicago Housing Authority's dramatic transformation is being largely capitalized through the sale of investment grade bonds backed by future capital fund revenue streams that CHA will be receiving from HUD for many years to come. The key to the success and expansion of this private financing system is the steady and predictable funding of public housing capital needs by Congress.

My own analysis of public housing modernization funding over the years shows that while presidential leadership is always helpful, it has been congress not the president that has ensured that public housing capital funds would not be subject to wild swings and dangerous cuts on a year-to-year basis. For example, in 14 of the 15 years between 1987 and 2001, congress insisted on increasing funds for public

housing modernization in the face of presidential budget requests for fewer resources. This trend continues to the present. Last year, President Bush requested $2.3 billion for the public housing capital fund, and congress saw fit to appropriate $2.46 billion, a 7% increase. Predictable and reliable capital funding is essential for public housing's continuing access to the private capital markets.

In closing, Mr. Chairman, I want to reiterate the critical role that public housing should play in our nation's affordable housing system in the coming years, and the importance of strengthening PHA relationships with its funding and servicing partners. To be a reliable partner itself, housing authorities must continue to develop and demonstrate their asset management capabilities. They will not be able to focus on preserving current value and creating future value in their developments if they must also be the central social service provider, and fund and manage their own police forces. To move public housing forward, requires all partners to move forward together, and for government to adequately fund the services that public housing residents need in order for them to have the prospects for better lives.

Thank you.

Mr. TURNER. Thank you.

I want to return to the property discussion of the example that I laid out for a public housing development that was in my community, the issue of attempting to transition it, the public housing authority's view being that it is a contributor overall to the administration overhead of the umbrella organization, and the threat of losing those funds. I am going to overly simplify the characterization of Congressman Lazio's and Secretary Cisneros' response, but Congressman Lazio advocating for voucher opportunities for the residents, Secretary Cisneros stating a policy which I would describe as—again, oversimplifying; I know he would have had much more to contribute overall to the discussion if we had continued down the line—but to characterize the initial comments as a "once public housing, always public housing" land view of this is an asset as a specific site.

I wonder if—many of you have used the term "property-based management" and many of you have used the term "asset-based management," and as asset-based management for real estate, while public housing that has an opportunity to transition doesn't necessarily mean that a decision that was made 40 years ago to locate public project housing X on this spot X, means that this spot X should remain either in the hands of public housing or transitioning to a use that accommodates public housing. And we see all over the country communities that are making that transition of looking at public housing opportunities at a different location versus a specific location, and working in partnership.

I would like, if you would, for each of you to talk about the issue. And we all raised the issue of if you have a project that is obsolete and needs to be removed, and providing economic diversity to a community and for the residents that live there. Let's focus our comments, if you will, on the issue of the opportunities of redevelopment for these sites. Mr. Solomon.

Mr. SOLOMON. Mr. Chairman, I think you're right that it's being looked at all over the country and it's very site specific and inventory specific, and I think that's what asset-based management is in part. I would like to point out that to a substantial extent, this is happening, meaning that public housing is being disposed or demolished in those situations about 135,000 units since all of this activity started. Nevertheless, the way the system is set up now, it does have the local management actors that have to decide whether this right.

And I agree with something Congressman Lazio said, which is, we have to try to get the incentives right so that the housing authorities looking at this, the cities are going to come out OK in terms of both money and hopefully will see a bigger picture that will realize that when it's a better interest for the residents and future residents and families they're trying to serve, to convert, that will also be in their self-interest and they'll be commended for it. And I think we have some work to do there.

We also have some work to get the tools in place that were even in the 1998 act so that this can fully occur where it should.

Mr. TURNER. Mr. Egan.

Mr. EGAN. Mr. Chairman, I think that the approach needs to be tailored to the individual circumstances. I think our goals should

be, as many of us have said here today, to do what's best for the community, to do what's best for the residents and also, I agree, to do what's best for the taxpayers.

Therefore, public housing authorities and their counterparts and partners in the public and private sectors should have the maximum amount of flexibility and the broadest range of options to achieve the best solutions for those communities. The solution will vary from market to market. In a soft market situation where there are plenty of additional vacant units available, the best option may very well be a voucher type approach. Where the market is very tight like the Washington, DC market, for example, the strategy might be to hang on more to a property-based approach. But I think regardless, the goal should be to try to create to the maximum extent possible, opportunities for the residents to rejoin the rest of the world of society.

I think the statistics that Mike Stegman just gave us here today are very telling, and I think are a demonstration that what we need to do is to give those residents an option to kind of rejoin the rest of society and to reconnect, as the case may be, with the kind of services and institutions that the rest of society is able to enjoy.

Let me give you just one quick example, if I could, which I think demonstrates a particular solution in a particular place. One of my additional responsibilities is to chair the Fairfax County Redevelopment and Housing Authority. I'm in my 5th year as the chair of that venerable institution. And we are, I think, a very entrepreneurial agency. One of the things that we did recently was to look at one of our older properties which needed rehabilitation, and we made a decision to take half of the public housing authority funding and move it to other units in the county which we purchased on a scattered-site basis through the county's inclusionary zoning ordinance, and to convert those units in that property to a low-income housing tax credit.

So on the one hand we created a mixed-income community onsite and we gave the residents who were able to move to these property-based units elsewhere in the county an opportunity to connect into, as I said, the rest of the world of society, but I think it's going to vary from place to place, and that's why the PHAs need flexibility and options.

Mr. VON HOFFMAN. I would just say everybody's job would be a lot simpler if Americans would just stay still and stop moving around, and that is a kind of larger context. And again, times change. You know, the old neighborhoods are not inhabited by the same people they used to, and it's in that context that I think you encountered this situation in Dayton. You have changes go on, and I'm concerned with the nonprofits who do low-income housing with the public housing authorities, that they listen to people like Conrad and Renee Glover, and think beyond what's happening just this moment or what they used to do, and think about the change in the population, because poor people are moving out. So we might think about producing hard units as well as vouchers and creating communities that will help integrate people.

That said, I have to endorse the idea of situation by situation because a lot of people are going to fear when this happens a real estate grab, quite frankly, that has happened on occasion in the

Urban Renewal Program over time. Local government people made deals with important entrepreneurs that basically move an area out of poor people's hands into wealthy people's hands for that. So I would say that I embrace the spirit of change and flexibility, but probably will need to have some safeguards to make sure it's done right.

Mr. OLSEN. No competent economist would agree with a proposition that the fact that a piece of land was once used for public housing it should always be used to house subsidized families. I mean, as you mention, the location of jobs has changed vastly over the years, and so the best place for low-income people to live has obviously changed vastly.

Beyond that I would say the evidence indicates that all forms of unit-based assistance, all types of housing projects, have excessive costs for the housing provided. So I think as a general matter we should be moving away from designating specific properties for low-income people, and giving them vouchers and letting them live where they want to live.

Mr. STEGMAN. I don't think all of our programs ought to be run by economists. [Laughter.]

And there are other values that go into this. But if you go back to Congressman Lazio, aligning incentives is absolutely critical. Even in the public-private partnerships we don't want the public partner taking all the risks and the private partner getting all the gain. That's not a market-driven strategy.

Rod Solomon will remember this. The public housing folks came to the Secretary—I was his Assistant Secretary for Policy—with the proposition to encourage demolition, we ought to give housing authorities 3 years—correct me if I'm wrong, Rod—3 years of operating subsidies for units that don't exist anymore. Phantom operating subsidies to really align the incentives that you, Mr. Chairman, were talking about. They couldn't afford to lose the operating subsidies, and so we were seeing housing authorities not doing probably what they ought to have been doing. Can you imagine GAO finding 3 years of operating subsidies for units that don't exist? You know, you've got to have a way of kind of couching that, but the alignment of incentives is absolutely critical.

If we go to project-based budgeting and project-based asset management in the context that you're talking about or in the context that Ed Olsen is talking about, if that development can't be occupied by rent-paying people, it will drain the resources of the authority so that they can't manage their portfolio, and they will find it in their interest to do something about it, not just keep it up as kind of an archaeological kind of—anyway. [Laughter.]

Mr. TURNER. I appreciate the discussion because you have all identified, and wonderfully, the broad range of issues that need to be taken up when a decision like that is made, and they are many, and what a great description each of you have contributed to that. I appreciate it.

Mr. Clay.

Mr. CLAY. Thank you, Mr. Chairman.

I will be quite brief in the interest of time. Just for a panel-wide question—and perhaps you can help me understand it better—one concern I continue to have is that new reform efforts to place indi-

viduals into privately owned multi-family structures will result in unit shortages due to budget limitation and market rental costs that continue to rise. How does a fixed budget program like Section 8 adjust in this environment? And I would love to hear from all of you on that, or anyone who wants to take a stab at it. Mr. Solomon?

Mr. SOLOMON. If the answer is how do they adjust to a flat budget, they don't, if rents are going up in the locality. So I heard the question you asked in the last panel, and I think part of this is how do we have a system for the voucher program that tries to be responsive to the cost changes and is still a responsible system in terms of cost. I think we have to start with, as one of the panelists said, defining what we're trying to do in the program. If we're still going to serve people who are paying 30 percent of their median—I'm sorry—of their income as rent, and we're still going to target to serve the very poorest families, who our studies have shown are the ones with the most need in terms of needing to be served, then per unit that's going to cost a certain amount.

And when Congress sets these budgets, Congress has to be or should be very clear about, OK, these are the kinds of parameters, this is what we're aiming to do, and this is how many families we can serve with these budgets. We, taxpayers have to leave it to all of you, knowing those facts, to evaluate the importance of staying at 2 to 2.1 million families assisted.

Mr. CLAY. Thank you.

Mr. EGAN. Mr. Clay, let me respond to your question by going back to the example I cited, which I cited for a reason. Because I think what, the basic points I want to make is that the answer to your question varies significantly from market to market, and I agree generally that Congress has the burden of trying to fund the Section 8 Housing Choice Voucher Program in as predictable and sustainable a manner as possible. Increasingly, the investment community is relying on that Section 8 subsidy to make major decisions about debt and equity investments.

But in a very tight market like Cambridge, MA and Fairfax County, I would suggest, just kind of off the top of my head—I've been trying to run some quick numbers here—that we can probably provide to a family, housing assistance at half the price in a property-based solution than in a voucher-based solution. Specifically, the units that we were able to purchase with the public housing authority we moved out of the one development and used to buy on a scattered-site basis townhomes in other parts of the county. That's probably costing us about $1,000 a month, all in, because we were able to purchase the units at a significantly lower price through our inclusion rezoning ordinance.

Give a Housing Choice Voucher to a family in Fairfax County, they're going to end up having to pay probably double that to find a comparable unit.

Mr. CLAY. OK. Thank you for that response.

Mr. VON HOFFMAN. I would just speak to this briefly. In Cambridge, since Conrad brought it up, which is an extremely high housing market, the housing authority there, as in other places, ended up having to purchase apartment buildings in order for

there to be properties to use the vouchers. It becomes so tight that you really need some creative solutions.

Mr. CLAY. Let me ask you about that, doctor. In an ideal situation, do you foresee there always being a need for public housing and available units, or do you think we could transition people and families to homeownership, to mortgage rate rental units or will there always be a need?

Mr. VON HOFFMAN. I think there will always be a need, and I think Americans generally will feel there's a need. And I think you can look at what's happened in the nonprofit and community development movement over the last 30 or 40 years to see that given the opportunity, people have used the low-income housing tax credit to create communities. I think, again—that was my point about the panaceas—to think that one thing will transform someone's life is just naive. And you can look at history or you can look around you and see that. I think that well-done public housing projects, as they were conceived and have been very effective at different points in time, or nonprofit developments, or even for-profit, commercial developments that are done with this in mind, are a very good way of bringing people along, integrating—Renee Glover's example is wonderful—integrating education, job training, or just stability.

Mr. CLAY. And mixed use is included in there, mixed-use unit. Anybody else? Yes, sir.

Mr. OLSEN. Well, first, I mean we haven't had a fixed budget for the voucher program. The voucher program budget has risen rapidly in recent years, and I don't favor a fixed budget, because if we had a fixed budget, with inflation it would mean we would have to serve fewer people or we would serve the people served not as well. So I certainly don't favor a fixed budget for the voucher program. On the contrary, I favor a rapidly rising budget for the voucher program to serve more people, funded by vouchering out project-based assistance, so just transferring the total budget toward the vouchers. So I favor an entitlement housing voucher program for the poorest people.

Mr. CLAY. Entitlement.

Mr. OLSEN. Yes.

Mr. CLAY. Thank you.

How about you, Dr. Stegman?

Mr. STEGMAN. Mr. Clay, the budget-based Section 8 kind of policies, if continued, would have either one of three effects or a combination of them. As rents go up and you keep the budget as it was based on the number of people being helped the previous year, either you assist fewer households, you raise tenant contributions to rent, or you use your program for higher-income households so that they really have a need for lower subsidies.

I think a bigger problem is that only a quarter of eligible households receive housing assistance. That's really the bigger kind of issue. We're not in an entitlement situation, but when we look at Section 8, it's the only safety net program that I'm aware of where the market kind of sets the subsidy level. It's a market-based, that's what housing costs in an area that is not concentrated poverty, and so on. And when we look at market-based programs, it seems to me those who support them need to support the kind of

market principle, which is paying the market rents. When you fix the budget you don't pay the market rents.

Mr. CLAY. All right. Thank you all. Did you want to answer?

Mr. OLSEN. I'll followup on that. There have been studies of the adequacy of fair market rents that indicate that these rents and the maximum subsidies in the voucher program greatly exceed what is necessary to occupy units meeting HUD's minimum housing standards. So we could take the money from the voucher program right now—we want to phase this in and grandfather people—we could take that money, offer less generous subsidies to a lot more people. That's what I think we should do.

Mr. CLAY. OK. But then what do you do with the current——

Mr. OLSEN. Grandfather them, allow them to continue on the current system, and just as there's turnover—every year there's about a 12 percent turnover rate—phase them into a less generous voucher program where you're serving more people though.

Mr. CLAY. OK. But there were probably incentives for them being involved in the program to begin with, don't you think?

Mr. OLSEN. Well, that provides significant benefits to them, absolutely. But I think we need to grandfather to make it politically feasible to do something like that.

Mr. CLAY. I thank you for that, and I thank all the witnesses for their response.

Thank you, Mr. Chairman. I yield back.

Mr. TURNER. I also serve on the Armed Services Committee, and there is a hearing that is ongoing for which I might need to leave in the middle of—so we might have to cut short the answers to this question, and if we do, what I'm going to ask is that we adjourn, and then if you are unable to—if we don't get to you, which I do believe we will, if you would submit your answer in writing.

One of the issues that I think is most important that we focus on, besides financial issues and impact on budget, besides the housing structure and environment and quality housing and affordability, is the issue that most of the residents that we have in public housing that have opportunity for economic transition, in other words, non-elderly, non-disabled, most likely have some other issue that is complicating the expression of poverty that requires intervention through some social services, through education, through skill sets. What comments or thoughts might you have as to how we might better improve our ability to go beyond just the four walls of looking at providing a place for families to live, but opportunity for skills and transitional? Start with Mr. Solomon.

Mr. SOLOMON. First of all, Mr. Chairman, I'm glad you mentioned non-elderly, non-disabled, because we sometimes forget that in public housing half of our occupancy is elderly and disabled. So focusing on the other group, the families, I think, given the way the budgets have been in recent years and what might be reasonable to expect, and the expertise that agencies have in our communities, we're really talking about how to get help from outside the public housing system and outside public housing authorities to focus on these residents, and really bring some both case work and figure out the help they need and try to get it to them.

The act that was passed in 1998 did say that housing authorities are to use their best efforts to get cooperation agreements with

local agencies, that will kind of offer services like employment assistance, other types of assistance. Housing authorities say that they're doing that, but I think the committee could see a little bit more what's happening with that. It's also something where HUD, with all of its regional offices, could use the presence of those field people to help join that effort locally and help engage the housing authorities where they are not doing it themselves or having trouble doing it with some of those other public and private sector agencies and entities that can help these residents.

Mr. TURNER. Thank you.

Mr. Egan.

Mr. EGAN. I think the general principle is that the relationship between the public housing authority and the residents should not cease at the point where the resident moves to additional opportunities, but there should be an ongoing relationship, presumably using private sector community-based services to help that family make that transition. Very specifically, I would recommend looking at some of the lessons that have come out of the Hope VI program in that regard. You talked about, at least Mr. Clay talked about visiting Atlanta. I'm sure that an onsite review of their experience would be very, very useful. Also, I think particularly the experience in Chicago with the transformation of the massive units of housing, and specifically the effect of the Gautreaux decision, which preceded the transformation. Literally as we speak, this moment at the Urban Institute, Alex Polikoff is releasing his book on the history and analysis of the Katrow decision. So I would recommend that counsel may wish to speak with Dr. Polikoff about the experiences of that program.

Mr. TURNER. Thank you.

Mr. VON HOFFMAN. I, just briefly, take a sort of historical view and say the reason we have this problem is because in the 1950's housing authorities and housing people generally were kind of blind-sided by the fact that they were going to need social services for their residents, and so we're kind of playing catch-up. I agree completely, Hope VI points the way and it's the enlightened housing authorities. I would also say there are many nonprofit, and there are some for-profit community development groups that have housing developments where they have job training, they have case workers. Here in D.C., Jubilee Housing, and you can go on to some of this faith-based work as well, that provide examples.

And then finally, I would just say I think in general in this case, as well, it would be great to lower the barrier between something called public housing and those entities, and the community, meaning that there are other low-income people or other people who have these problems and needs, and there is no reason to say that we're going to target only the people inside the walls of housing development, and that way we might have efficiencies of scale too, because we're serving a wider number of people.

Mr. TURNER. Dr. Olsen.

Mr. OLSEN. I think we shouldn't expect housing programs to solve all problems. For example, many children in public housing projects get a lousy education, and that's because they're in a lousy public school. There are just many problems, many important problems that housing authorities should not attempt to address.

So I would really prefer a more minimalist approach. The thing that they should do is make sure that low-income people live in adequate housing, and they should do it in a cost-effective way. Now, if they can do that first, then we can go on to other things.

But the one other specific thing I'll mention is there has been a lot of discussion about the work disincentive effects of housing assistance. The estimates that are available suggest that indeed all forms of housing assistance have work disincentive effects. People earn less than they would have earned in the absence of it. The magnitude is on the order of 13 percent. And this has to do with the subsidy schedule which basically says, under the basic subsidy, is the more you earn, you know, the more you pay in rent for your public housing unit, the less of a subsidy you get.

So I think the QHWRA provisions that allowed housing authorities to experiment with the rent schedule, I think is trying to address that, and may well be able to address it, but I don't think we have any systematic evidence on this, and I think we should. I think we should try to learn something from the experiences of different housing authorities in a very systematic way because I think that is an important issue and that is something that housing authorities can do something about.

Mr. TURNER. Dr. Stegman.

Mr. STEGMAN. I mean I would agree with Ed that housing agencies don't have either the capacity, the skills, or ought not necessarily have the responsibility of meeting all of the other needs of families, but there is a moral obligation, once the housing authority gets involved in the lives of families, particularly if we're talking about moving them in order to transform a neighborhood. It is absolutely incumbent upon us to make sure that these residents who have all of these multiple problems, get as good services as they can to put them on the path to a better life.

The problem that we have here with Hope VI is the physical improvements are generational. I mean they're going to be around forever, but the short-run costs are being borne by families who are being relocated to—some cases we don't know exactly how well they're doing. We know there are a lot of needs that aren't being met, and a lot of this dates back to the time that every housing authority had a police force, every housing authority was expected to do all the social services. They were not connected to the community, and we're trying to change that. That's why I said if they become outstanding asset managers, and really, experts in what they're supposed to be doing, they will be better partners if we can support the funding of the social service networks adequately in the community. These folks are part of the community. That's the only way it's going to ultimately be done.

Just one idea. I mean, the Chicago Housing Authority uses connectors. They don't provide the services, but part of their transformation is actually—I mean you could call them coordinators. You could call them case managers. But essentially they are trying to connect the residents in these transformed communities, those who are being relocated and so on, with social services. They're not providing the services themselves, but they are providing some resources to connect them.

Mr. TURNER. Excellent.

I want to thank each of you for participating, not only, again, for the written testimony that you have provided to us and the wonderful research that you have included with it, but your preparation for today and the answers of your questions today.

This is, as I stated, our beginning overview of the issue of public housing. I hope that each of you will be available to us as we look to becoming more focused on specific topics, and will be free to contact us as you have ideas of things that you think that we should be looking at. This is a broad topic, but one that your research and insight proves is certainly important to us from our community standpoint and from the lives of the people that live in public housing.

With that, I will close the hearing, and thank you so much for attending.

[Whereupon, at 4:33 p.m., the subcommittee was adjourned.]

[The prepared statement of Hon. Charles W. Dent and additional information submitted for the hearing record follow:]

Congressman Charles W. Dent
Pennsylvania – 15
Government Reform Committee
Subcommittee on Federalism and the Census
Opening statement: "Living in America: Is Our Public Housing System Up to the Challenges of the 21st Century?"

Thank you, Chairman Turner, for holding this important hearing on the state of public housing in the US relative to the enactment of "The Quality Housing and Work Responsibility Act of 1998". I appreciate the opportunity to examine the evolution of the public housing system and the opportunity to create a better, safer, and more affordable housing program for our nation's low and moderate-income families.

Public housing was established to provide decent and safe rental housing for eligible low-income families, the elderly, and the disabled. Approximately 3,300 Housing Authorities are charged with managing Federal aid to

provide affordable rental units for some 1.3 million households.

It is critical that we examine the proper role of the Federal, state and local government in the public housing system, as well as integrating the functions of community service organizations and the capital market.

I look forward to the testimony of our present witnesses and seek their knowledge and suggestions as to how to make this long-standing, yet ever-changing program, most efficient and effective in serving our nation's families in need.

Again, thank you Mr. Chairman.

Public Housing Reform and Voucher Success: Progress & Challenges
Metropolitan Policy Program
The Brookings Institution- January 2005 by Rod Solomon

This report is on file with the Committee on Government Reform and can also be found on www.brookings.edu/metro

Meeting Our Nation's Housing Challenges
Report of the Bipartisan Millenial Housing Commission
Appointed by the Congress of the United States

May 30, 2002

This report is on file with The Committee on Government Reform and can be found on http://govinfo.library.unt.edu/mhc/

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