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PUBLIC HOUSING MANAGEMENT: DO THE PUBLIC HOUSING AUTHORITIES HAVE THE FLEXIBILITY THEY NEED TO MEET THE CHANGING DEMANDS 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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PUBLIC HOUSING MANAGEMENT: DO THE PUBLIC HOUSING AUTHORITIES HAVE THE FLEXIBILITY THEY NEED TO MEET THE CHANGING DEMANDS OF THE 21ST CENTURY?

WEDNESDAY, MAY 10, 2006

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

The subcommittee met, pursuant to notice, at 10:03 a.m., in room 2154, Rayburn House Office Building, Hon. Michael R. Turner (chairman of the subcommittee) presiding.

Present: Representatives Turner and Clay.

Also present: Representative Emanuel and Senator Sununu.

Staff present: John Cuaderes, staff director; Juliana French, clerk; John Heroux, counsel; Peter Neville, fellow; Adam Bordes, minority professional staff member; and Cecelia Morton, minority office manager.

Mr. TURNER. Well, good morning. And a quorum being present, this hearing on the Subcommittee on federalism and the Census will come to order.

Welcome to the subcommittee's hearing entitled, "Public Housing Management: Do the Public Housing Authorities Have the Flexibility They Need to Meet the Challenging and Changing Demands of the 21st Century?"

This is the second of a series of hearings on public housing. Congress first authorized public housing in 1937 as part of Franklin D. Roosevelt's Depression-era public works legislation package. Public housing over the years has changed from a public works program designed to serve predominantly working families on a temporary basis to a program that serves poorer families on a permanent basis.

By the mid-1990's, conditions in many public housing projects around the country were deplorable. The picture of public housing most Americans had was that of substandard high-rise buildings with high crime, rampant drug use and extreme poverty.

In the eyes of conservatives and liberals alike, the system was a failure. It failed to provide safe, affordable, quality housing to those families most in need. Many pointed their finger at HUD; others laid blame on the shoulders of the public housing authorities themselves. In fact, by the end of the 1970's, much of the focus had turned toward public housing management as the problem.

In 1979, a Massachusetts court placed the Boston Public Housing Authority in receivership. By 1995, three more authorities, Washington, DC, Pennsylvania, and Kansas City, MO, were placed into receivership. By 2001, HUD had placed an additional 11 housing authorities into administrative receivership, including Chicago and New Orleans.

In 1998, Congress passed the Quality Housing and Work Responsibility Act of 1998. The goal of Congress was to streamline the system, provide public housing authorities with more management flexibility, and create more accountability within the system. Eight years after the legislation's enactment, our Nation's public housing system is still undergoing dramatic changes in how it is funded and how it is managed. Some of those changes have worked, and some have not. A recent report released by the Brookings Institution opined that HUD's aggressive efforts to improve the management of the most troubled housing authorities have been effective, but the act's success in deregulating public housing management with increased accountability has been mixed.

The purpose of this hearing is to examine whether HUD has appropriately implemented reform in keeping with the spirit of the act's stated purpose of deregulating and controlling public housing authorities and providing for more flexible use of Federal assistance. The subcommittee will hear from several witnesses representing various public housing authorities from around the country. We're interested in hearing their views on HUD's implementation of the act and its new management rules, and hearing some of their incredible and exciting successes. It is our hope that the public housing authorities here today will comment on what steps HUD could take to further improve the public housing system while increasing accountability, whether that means expanding programs like Moving to Work Demonstration, or finding some other mechanism.

With that, I would like to thank each of the panelists who are here today and look forward to their comments.

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

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ONE HUNDRED NINTH CONGRESS

Congress of the United States
House of Representatives

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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: ***"Public Housing Management: Do the Public Housing Authorities have the Flexibility They Need to Meet the Changing Demands of the 21st Century?"***

Wednesday, May 10, 2006
10:00 AM
2154 Rayburn House Office Building

OPENING STATEMENT

Welcome to the Subcommittee's hearing entitled, "Public Housing Management: Do the Public Housing Authorities have the Flexibility They Need to Meet the Changing Demands of the 21st Century?" This is the second in a series of hearings on public housing.

Congress first authorized public housing in 1937 as part of President Franklin D. Roosevelt's Depression-era public works legislative package. Public housing, over the years, has changed from a public works program designed to serve predominantly working families on a temporary basis to a program that served poorer families on a permanent basis. By the mid-1990s, conditions in many public housing projects around the country were deplorable. The picture of public housing most Americans had was that of substandard high-rise buildings, with high crime, rampant drug use and extreme poverty. In the eyes of conservatives and liberals alike, the system was a failure. It failed to provide save, affordable, quality housing to those families most in need.

Many pointed their finger at HUD. Others laid blame on the shoulders of the Public Housing Authorities themselves. In fact, by the end of the 1970's, much of the focus had turned toward Public Housing management as the problem. In 1979, a Massachusetts court placed the Boston Public Housing Authority in receivership. By 1995, three more Authorities – Washington, D.C.; Chester, Pennsylvania; and Kansas City, Missouri – were placed into receivership. By 2001, HUD had placed an additional 11 housing authorities into administrative receivership, including Chicago and New Orleans.

In 1998, Congress passed the Quality Housing and Work Responsibility Act of 1998. The goal of Congress was to streamline the system, provide Public Housing Authorities with more management flexibility, and create more accountability within the system. Eight years after the legislation's enactment our nation's public housing system is still undergoing dramatic changes in how it is funded and how it is managed. Some of those changes have been applauded, some have not. A recent report released by the Brookings Institution opined that "HUD's aggressive efforts to improve the management of the most troubled housing authorities have been effective; but the act's success in deregulating public housing management – with increased accountability – has been more mixed."

The purpose of this hearing is to examine whether HUD has appropriately implemented QHWRA in keeping with the spirit of the Act's stated purpose of deregulating and decontrolling Public Housing Authorities and providing for more flexible use of Federal assistance. The Subcommittee will hear from several witnesses representing various Public Housing Authorities from around the country. We are interested in hearing their views on HUD's implementation of QHWRA, and its new management rules. It is our hope that the Public Housing Authorities here today will comment on what steps HUD could take to deregulate further the public housing system while increasing accountability – whether that means expanding programs like the Moving to Work Demonstration or finding some other mechanism.

Today we will hear first from Greg Johnson, Executive Director of the Dayton Metropolitan Housing Authority. Mr. Johnson took over a Dayton's housing program after it had many years of difficulties. He has done a great job turning that program around and I look forward to working with him in the future.

Next, we have Terry Peterson, Chief Executive Officer of the Chicago Housing Authority. Mr. Peterson and I, along with other fine people from Chicago, toured many of the public housing area to show us what they have been doing to improve their public housing. Since the City of Chicago has taken back control of the Chicago Housing Authority, its housing program has made a remarkable transformation. Under Mr. Peterson's leadership, Chicago is transforming its public housing to meet the demands of today's world. Mr. Peterson's approach to public housing management is innovative and impressive. I look forward to hearing his testimony.

Next, we have Doug Apple, who is the General Manager of the New York City Public Housing Authority.

We also have Steve Rudman who is the Chief Executive Officer and Executive Director of the Housing Authority of Portland;

Next is Betsey Martens, Co-Executive Director of Boulder Housing Partners in Boulder, Colorado.

Lastly, we have Curt Hiebert, who is the Chief Executive Officer of the Keene Public Housing Authority, in Keene, New Hampshire.

Thank you and I look forward to your testimony.

####

Mr. TURNER. And before we move on, I would like to yield to our ranking member, the gentleman from Missouri Mr. Clay, for any remarks he might have.

Mr. CLAY. Mr. Chairman, thank you for today's hearing on the continuing regulatory challenges facing our Nation's public housing authorities.

As housing costs continue to rise, and our financial support for public housing declines, I believe we must proactively pursue solutions that can improve agency performance in an era of stagnant resources.

Our Nation's public housing programs have been a bedrock of support for millions of families, elderly and disabled individuals since their establishment under FDR's New Deal. They are facing increasing pressures, however, due to limited Federal funding options, insufficient regulations that limit the amount of capital for long-term development projects, and growing economic disparities among our citizens who rely on housing programs for their survival.

I readily admit there are no silver bullet solutions to these problems, but remain open-minded to new ideas that may potentially improve the lives of residents.

My hometown of St. Louis is a model for the challenges facing an urban PHA on a limited budget. Our local PHA, the St. Louis Housing Authority, has a budget of $60 million that is derived entirely from the U.S. Department of Housing and Urban Development. It has extensive waiting lists for this housing voucher program, and its public housing units are in desperate need of repair and renovation.

That said, I come into today's hearing wondering whether current HUD regulations, demonstration program efforts or deregulatory proposals offered by our witnesses can possibly be helpful to my constituents. In particular, I realize that several panelists represent PHAs participating in the Moving to Work demonstration program. While they tend to speak mostly of the flexibility associated with MTW, I'm looking to hear more about improvements in services and quality-of-life issues for their residents. Does MTW offer significant relief for all agencies, both large and small, and have services for residents measurably improved since the pilot's inception? These are important milestones to meet if we are to consider a pilot program appropriate for widespread application.

I look forward to our testimony today, Mr. Chairman, and I yield back. Thank you.

Mr. TURNER. Thank you, Mr. Clay.

We also have with us here today Senator John Sununu from New Hampshire, who would like to briefly introduce a witness from his State, and I yield to Senator Sununu.

Senator SUNUNU. Thank you very much, Mr. Chairman. And it is a pleasure to be here and to introduce and to welcome one of the leading lights in housing authorities in New Hampshire, Curt Hiebert.

And I do want the committee to know that I risked a great deal of scorn and ridicule from my former colleagues by coming across to this side of the Capitol, but it's important. It's important for the reasons that both you and the ranking member mentioned in your

opening remarks: We need to look at opportunities to really strengthen, I think, the role provided by the housing authority leadership that we see on the panel today, find solutions that enable them to use their creativity to help their clients, to help their constituents.

Curt Hiebert has been the director of the Keene Housing Authority in New Hampshire since 1987. My staff have put together a few talking points, and I think most of them were issues that I dealt with before with Curt and with others, but this was certainly a new piece of information that he has been the Director of the Housing Authority for 20 years, is really an impressive dedication, and, I think everyone would agree, gives him a great wealth of knowledge how things were done under previous administrations, under previous bureaucracies, under previous leadership both at the Secretary level and at the elected level here in Washington and in New Hampshire.

He has been the president of the New Hampshire Housing Authority, he has been on the legislation committee, or the vice president for legislation for the Public Housing Directors Association nationwide. And as you can imagine, because of this experience, he has been a great resource to me. He has been extremely helpful in understanding what has worked in New Hampshire, what he has seen implemented elsewhere in the country, and instilling in me an understanding that what works for one housing authority doesn't necessarily work for another.

It's kind of exciting for me to see some of the leadership from Chicago, from New York and New Hampshire—even Portland is a very big city. So I'm sure you will see and hear a great perspective on different approaches and different solutions that work in different settings. But for us in New Hampshire, the Moving to Work Program has worked, and Curt has made sure that the flexibility that Moving to Work has provided has been put to very good use.

I have visited the housing authority in Keene where Curt helps to operate 800 units of public housing and Section 8 vouchers, not 8,000, not 18,000 or 28,000, which obviously is the norm in a city like Chicago or New York. But those are 800 units and families that really depend on his ability to lead and to implement the Moving to Work Program. They have developed end structures that preserve their affordability, which is a huge goal for you all, but also that encourage self-sufficiency, and that allow him to deliver different tools to different families, depending on their particular needs.

And I think everyone would agree, when you have a family that needs assistance, of course there are the essentials, food and shelter, education, sometimes transportation, but what is most important in the long run is that you develop independence, that you develop self-sufficiency. And I think that has been the cornerstone of the Moving to Work program.

Curt Hiebert is a real hero in New Hampshire's housing programs because of the commitment he has shown for years. And I hope that what they have done in Keene will provide an outstanding example of the approaches and innovation that we should seek to encourage as a Congress and expand wherever possible.

Thank you, Mr. Chairman.

Mr. TURNER. Thank you, Senator. I want to thank you for your leadership on neighborhood and community development and lending your support for this hearing today and introducing Curt. We look forward, too, as this committee continues to look into the issue of how we might be able to assist public housing authorities in their role in our communities, and working with you in ways that we might be able to implement some of the recommendations that we find. So thank you for participating.

Senator SUNUNU. It's my pleasure.

Mr. TURNER. Next we have one of our colleagues, Rahm Emanuel from Illinois, who is here with us today to introduce Terry Peterson. Terry just recently gave me a tour of some of the great successes that they have in Chicago, so I know you must be very proud of the things that they're accomplishing there, and we appreciate you being here today.

Mr. EMANUEL. Thank you, Mr. Chairman. Thank you to the ranking member.

In between having worked at the White House and run for Congress, I served as vice chairman of the Chicago Housing Authority, which oversaw and implemented and began the stages of the plan for transformation.

Chicago was known at one time as having the worst public housing in the country, and it earned that title. It did have at one time the worst public housing in the Nation, and today, by all accounts, the Wall Street Journal recently noted that what's going on in Chicago since public housing was started under Franklin Roosevelt is the most amazing transformation of public housing ever conducted anywhere in the country. That is not to take away from what everybody else is doing, but if you can accept the city of Big Shoulders, we would like to promote what we've done, and done under Terry's stewardship.

I think some of the accomplishments should make any person, Democrat or Republican, but especially Republicans, warm their heart. We've gone from 58 high-risers to only 5 left. And by the time Terry is done, there won't be a single public high-rise building in Chicago left. They will all have been taken down to no higher than six stories is my recollection.

Second, Chicago at one time had 2,500 bureaucrats in the CHA, Chicago Housing Authority. Today there are less than 450.

Third, one-third of the entire Chicago public housing, 27,000 units, one-third of it will be mixed income. No other public housing authority will have accomplished that goal. And all of the others will have been revitalized, rebuilt.

Last, he has done this in a way that is not to have walked away from public housing, but to revitalize it in a way that the Wall Street Journal noted that is now the most impressive transformation of public housing since its original days in 1937.

When Terry took over and I was vice chair, the people in public housing were isolated culturally, economically, geographically and from a service standpoint. They had their own child care centers, they had their own police force, they had their own garbage service, they had their own transportation system, and so they were literally physically, the residents, isolated from the rest of the city.

The public housing authority got out of other businesses and focused on its job of providing housing.

I actually also left out of there one other accomplishment, which was to live in public housing, you had to work, and it went back to an original idea that was essential as a premise, which is to get public housing, you had to take some responsibility, and work was a main issue of showing that you took responsibility for your life.

And today the residents of public housing are a part of the city of Chicago rather than isolated. They are part of that city both geographically, economically, service wise, and, most importantly, culturally, because if you isolate them culturally, they will never be part of the overall city.

And I am proud of what we've done under Terry's stewardship and Mayor Daley's stewardship and direction, because the truth is Terry had a great life as alderman of the 17th ward, and the mayor could have gone on to another reelection without taking on public housing. It takes a lot of courage to take on public housing and take on people's lives who have had their dreams shattered, and give them a sense of hope, which is why HOPE VI—contrary to some budgetary attempts, HOPE VI was essential to getting to where we are today, and eliminating HOPE VI would be wrong, and it should not be done.

And I am proud of what Chicago has accomplished, not just for the balance of only 5 high-risers out of 58, only 450 bureaucrats out of 2,500, those are all nice landmarks, but the most important landmark is the people in Chicago public housing feel they're part of Chicago. And having taken down those barriers and integrated them into the rest of the city, we have a chance of taking another generation and not isolating them, but integrating them completely economically, culturally and physically into the city. And that's why the Chicago public housing revitalization, it is more about bricks and mortar; as Terry always says, it's about people's lives.

Thank you, Mr. Chairman, for the time.

Mr. TURNER. Thank you.

We will now turn to our witnesses, and I will introduce our panel that we have with us today.

First on the panel we have Greg Johnson, the executive director of the Dayton Metropolitan Housing Authority, my own town. I appreciate you being here, Greg. Mr. Johnson took over Dayton's housing program after it had many years of difficulty. He has done a great job in turning around that program, and I look forward to working with him in the future.

Next we have Terry Peterson. Rahm has done an excellent job in telling the situation that you were facing in Chicago. And I greatly appreciated the time that you spent with us and the staff of this committee in showing us what is possible in public housing and what you're accomplishing. You're certainly to be commended, and we look forward to hearing your insight as to how those principles can be translated nationally and ways that we might be able to help you additionally.

Next we have Doug Apple, who is the general manager of the New York City Public Housing Authority from the Big Apple; and we have Steven Rudman—and I've got permission from Doug. He said that everybody does that to him, so.

We also have Steve Rudman, who the is chief executive officer and executive director of the Housing Authority of Portland, OR.

And next is Betsy Martens, co-executive director of Boulder Housing Partners in Boulder, CO.

And next we have Curt Hiebert, who was introduced by the Senator, and, of course, we heard some of the wonderful things that you're doing there, chief executive officer of the Keene Public Housing Authority in Keene, NH.

I thank you all for agreeing to testify before our subcommittee today. Each of our witnesses has kindly prepared written testimony which will be introduced to the record of this hearing.

Witnesses will notice that there is a timer light 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 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, and so I will ask if this panel would please rise and raise your right hands.

[Witnesses sworn.]

Mr. TURNER. Let the record show that all the witnesses have responded in the affirmative, and we'll begin our testimony with Greg Johnson.

STATEMENT OF GREGORY D. JOHNSON, EXECUTIVE DIRECTOR, DAYTON METROPOLITAN HOUSING AUTHORITY

Mr. JOHNSON. Thank you, Mr. Chairman and members of the subcommittee. I take as a great pleasure of being here today to have been able to speak before you.

I want to start off by saying Dayton Metropolitan Housing Authority has gone through a lot of changes over the last few years, and we look forward to progressing.

I want to talk about the operating fund rule, and I do support the idea of project basing and asset management, but there are three critical concerns that I would like to address this morning with you as we start our discussion that I think will hamper housing authorities from being flexible and going forward to providing quality housing.

Inadequate funding I want to bring up as one major concern. Right now there is a proposal for 78 percent of funding being as—last year we were funded at 89 percent, which caused a great concern for housing authorities across the country, which called for layoffs in staff and services being cut.

The other item inadequate funding would be the rent or nonfunding of authorized vacant units. These are units that are being turned for new residents, and also units that are under modernization.

Another one of my concerns is the micromanagement. When we look at the new operating fund rule, the cost allocations in how we're supposed to allocate certain expenses from central down to the front line or project level, it's going to be critical to stay within some of the HUD guidelines to make sure that happens.

And last but not least, I wanted to talk about the new rent calculation. If we look at the new rent calculation and how housing

authorities are supposed to survive, it calls for asking our tenants for more income, and I'm not sure how you get more dollars out of tenants that don't have a lot of money to give you.

So those would be my three main concerns when we're looking at the new operating fund rule that poses a lot of challenges for housing authorities in the next upcoming year.

I would like to mention just a little bit, I do believe that Dayton Metropolitan Housing Authority would benefit greatly from an MTW program. It would allow us to be a lot more flexible with our dollars than what we receive for supply services that we're not able to supply through funding today.

We had a Jobs Plus program at Dayton Metropolitan Housing Authority which actually worked great. It's where residents were encouraged to get a job, and then froze their rent without a rent increase, and we had the support from HUD on the funding on the rent adjustments. So I would like to say thank you for allowing me to speak this morning, and that's it.

[The prepared statement of Mr. Johnson follows:]

Testimony of
Gregory D. Johnson, EDEP, Executive Director
Dayton Metropolitan Housing Authority
Dayton, Ohio

Before the House Government Reform
Subcommittee on Federalism and the Census

"Public Housing Management: Do the Public Housing Authorities have the Flexibility They Need to Meet the Changing Demands of the 21st Century?"

Rayburn House Office Building
Wednesday, May 10, 2006
Room 2154 – 10:00 a.m.

Testimony of
Gregory D. Johnson, Executive Director,
Dayton Metropolitan Housing Authority
Dayton, Ohio

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Before the House Government Reform Subcommittee on Federalism and the Census

"Public Housing Management: Do the Public Housing Authorities have the Flexibility They Need to Meet the Changing Demands of the 21st Century?"

May 10, 2006

Chairman Turner and members of the subcommittee, thank you for the opportunity to appear before you today to discuss the Housing and Urban Development's implementation plans for the new Operating Fund Rule. My name is Gregory D. Johnson; I am the Executive Director of Dayton Metropolitan Housing Authority in Dayton, Ohio. Dayton Metropolitan Housing Authority's mission is to assist low to moderate income residents of Montgomery County, Ohio area in obtaining decent, safe and affordable housing. Dayton Metropolitan Housing Authority's housing stock is comprised of over three thousand public housing units and oversees the administration of over twenty one million dollars in federal funds through the Section 8 Voucher Program.

The State of Ohio has over **75** public housing authorities that will be affected by the new Operating Fund Rule. Public housing in Ohio provides over **135,651** opportunities for families to have decent, safe and affordable housing.

Background

The Quality Housing and Work Responsibility Act of 1998 (QHWRA) called on HUD to replace the older performance funding system with a new operating fund formula. In 2003, the Congressionally mandated Harvard Cost Study reported that public housing was underfunded compared to private and nonprofit owners managing comparable property serving the country's low income population. It also recommended that public housing adopt the asset-based system that the private sector uses to account for and manage its property.

A negotiated rulemaking committee wrote a rule implementing the cost study's recommendations in 2004. However, HUD has not lived up to its responsibilities under this rule. The new management requirements are being implemented in 2007, but its 2007 budget only requests enough funding for 78 percent of the subsidy amount that, according to the rule, is needed to sustain well-run public housing. With such a low proration, even some agencies that stand to gain under the new system will end up losing funding.

Housing authorities are expected to convert to the new asset-based system starting this year, but the details of that conversion are still up in the air, especially since much of the Department's proposed guidance does not implement its own rule.

Through its proposed asset management guidance, the Department is trying to micromanage how a housing authority is organized by pushing services to the sites-even though the rule clearly allows management functions to be performed centrally when they are cost effective. HUD is also trying to dictate housing authorities' organizational structure by restricting how they can spend their own money, despite language to the contrary in the rule and existing law.

As I look at the new Operating Funding Rule, there are several topics that create funding shortfalls for housing authorities across the country. These shortfall gaps can only be filled by clients (potential residents) that do not have the dollars to fill the gap. If public housing authorities are suppose to run their operations more like the private sector, then public housing authorities need the same flexibility the private sector has when it comes to running their operations.

Concerns:

A. Public Housing versus Multifamily

As part of the initiative to shift public housing agencies to asset management, HUD is requiring that housing authorities adopt financial and operational practices like those used in the Department's multifamily housing programs. This is an extension of an earlier effort to tie public housing operating costs to multifamily programs. Under the new operating fund rule, local HAs will now receive funds based on the costs of similarly situated multifamily housing in their area. One of the biggest concerns with this is unlike multifamily housing providers, public housing authorities have historically been underfunded. Since public housing rents are tied to tenants' income and limited by the Federal Brooke Amendment, housing authorities, unlike multifamily providers don't have the options to increase rent. Housing authorities have to depend on Congress for funding. Housing authorities received only 89 percent of total funding eligibility last year and may only get 78 percent in 2007, even as utility costs are rising by up to 50 percent. In contrast to public housing, private housing providers are not short funded by the federal government. Any new PBA/PBM rules must take this budget reality into account, and be flexible enough to allow housing authorities to deal with budget shortfalls as best they can. Another comparison between the two is that public housing agencies are heavily regulated whereas multifamily counterparts do not operate the same way. Just to list a few of the differences pertaining to regulations are:

- Public Housing Assessment System (PHAS)
- the annual plan

- de-concentration
- procurement
- community service
- employee compensation
- resident programs
- population housed
- public entity costs
- local mandates

B. Rent Calculation

Before the new funding rule, to calculate how much funding housing authorities needed, HUD first figured out how much they collected in rent. Under the new rule, HUD has changed the way it calculates this rental income. Housing authorities' "formula income" now includes rent that they never collected-rent on routine vacant units and units that are being modernized. This change in the rule may deprive housing authorities of $100-$200 million in funding eligibility each year. The rule HUD agreed to during negotiated rule making described the calculation of formula income as follows: "***For the purpose of the Operating Fund formula this revenue is equal to the amount of rent charged to tenants minus any applicable utility allowance calculated as a per unit month (PUM) and frozen at 2004 levels."*** This means housing authorities' rental income is the amount they charge tenants. It doesn't indicate that HUD should make any changes to the existing system of estimating total resident rent.

According to this more complicated formula, HUD will now figure rental income by taking the per unit month amount of rent charged to tenants and multiplying that by the number of "eligible units." This includes not only occupied units, where tenants are actually paying rent, but also units that no one is living in-apartments that the housing authority has permission from HUD to renovate, plus the normal three percent of units that are being cleaned and repaired between tenants. This method is clearly unfair. It will ascribe income to housing authorities that they will never receive. Housing

authorities will not receive the amount of funding recommended by the Harvard Cost Study, and their residents will not be treated equally to those in the multi-family program. Well-run agencies who often have more approved vacancies for modernization projects-will be hit the hardest.

Even more alarming, this new calculation will likely discourage housing authorities from undertaking comprehensive modernization projects and improving their housing stock, because creating any temporary vacancies will mean losing rental income.

When HUD is determining whether multi-family properties will be viable, it has to calculate whether they will collect sufficient rent to cover their expenses. In other words, when HUD is evaluating these properties' revenue, it assumes that they will have no income from five percent of their units. This means public housing properties are not being funded in a manner equivalent to multifamily properties. ***How does HUD expect housing authorities to collect rent on units that are in modernization or make ready stage?***

C. Micro-Management

Housing authorities must now assign their expenses either to the central office, where they are paid by the management fee, or to the individual properties, where they become a front-line expense. The new rule clearly says housing authorities can perform front-line functions centrally if they choose-for example, having a central maintenance department for all its properties, and distributing that cost among the properties as a front-line expense.

HUD has now proposed regulations that directly contradict the new rule and the multifamily housing handbook as well as the Department's own lead architect of property base management. If HUD required housing authorities to pay for these centralized front-line expenses out of its limited management fee funds, the housing authority will not be able to afford them and will have to physically move staff out to the property-even if it's more cost effective to perform the work centrally. Organizational decisions should remain at the local level, not be micromanaged. The rule is not

ambiguous: housing authorities are authorized to perform services centrally. When those services directly support a project, they should be charged to the projects. The rule even specifies a mechanism-the fee-for-service approach-for charging centralized functions back to the properties. HUD strongly suggested that housing authorities should have a central procurement department. Under HUD's draft guidance and inadequate management fees however, it will be financially challenging for housing authorities to operate this important internal control mechanism. This could create future problems for housing authorities during audits and IG reviews.

Much of HUD's new guidance for public housing is based on the multifamily handbook. Even it specifically permits property managers to expense centralized functions as front-line costs. "If front-line management functions for several properties are performed by the staff of the agent operating out of a single office, the following conditions apply. (a) The agent *must* prorate the total associated costs among the projects served in proportion to the actual use of services."

Despite these clear statements in the rule, in the multifamily handbook, and during the negotiated rulemaking, HUD's proposed guidance specifically prohibits charging some key expenses to the front-line, even when they directly support individual properties:

1. Centralized purchasing must be paid out of the management fee.
2. Centralized inspections must be paid out of the management fee.
3. Supervisors providing front-line functions, such as a maintenance supervisor or a work order supervisor, must be paid out of the management fee.

HUD must stop ignoring its own rule and the multifamily handbook, and allow centralized functions directly supporting the projects to be expensed at the front-line.

HUD is trying to control how housing authorities can use the funds which they are provided. It wants to restrict the amount of money that can be spent on central office costs, but in so doing HUD is breaking the law and violating the intent of its own rule.

QHWRA says that housing authorities with 250 or more units can use up to 20 percent of the Capital Fund for everyday operations. This language was confirmed in the negotiated rulemaking session when Assistant Secretary Michael Liu stated, "Fungability between operating and capital funds will remain the same as provided by current statue".

The new rule says housing authorities should be able to use excess cash flow for any eligible expenses – anything a housing authority can normally spend money on "If a project has excess cash flow available after meeting all reasonable operating needs of the property the PHA may use this excess cash flow for the following purpose:...other eligible purposes." Under QHWRA, the central cost center is clearly considered an eligible expense. HUD agreed with this position during negotiated rulemaking when Assistant Secretary Liu said that "excess cash flow is fully fungible." In its new guidance, HUD is essentially saying after the fact that only certain HA activities are "eligible purposes."

The rule says that funds can be transferred from one project to another when there is "excess cash." This provision was included in the rule because the cost study had an error rate of ±42 percent for any one property, and housing authorities need a way to adjust for such large errors in their properties' funding levels. HUD has now proposed, though, that a project can only be considered to have excess cash if it has two months reserve. HUD has never before mandated a reserve level prior to allowing a PHA to spend its money. The rule does not authorize this restriction, nor are multifamily properties required to maintain a two-month reserve. Also, HUD has proposed a six-month reserve limit for the central cost center, and has said that stop-loss agencies cannot spend this reserve to support the central costs center. "Provided that the PHA complied with GAAP and other associated laws and regulations pertaining to financial management (e.g., OMB Circulars), it shall have the **maximum amount of responsibility and flexibility** in implementing project-based accounting".

D. Inadequate Funding

There are a few major points that I again would like to address that pertain to a housing authority's funding.

- HUD's new formula assumes housing authorities can collect rent on authorized vacant units;
- HUD is proposing a **78 percent** funding level;
- Public housing authorities; inflation factor does not include health care costs;
- HUD is proposing unreasonable property management fees with guidance that will micromanage the way housing authorities use their funding;
- Last but not least, asset management and bookkeeping fees in HUD's proposed guidance are one size fits all.

E. Section 8 to Asset Management

HUD is proposing, housing authorities will have to divide their Section 8 expenses into "front-line" and "central" costs. HUD will set a limit on how much of the Section 8 administrative payments can be spent on "central" costs and how much can be spent on "front-line" expenses. These "front-line" expenses, paid for through a fee-for-service, would include direct program costs such as the waiting list, income certifications and inspections, while "central" costs would be supervisory.

However, Section 8, unlike public housing, does not manage properties-so there are no front-line (or project-level) expenses. Any plan for dividing Section 8 expenses into "central" and "front-line," as HUD proposes to do, would make no sense from an asset management perspective. It is important to note that the operating fund rule specifically excludes Section 8: "*This part is not applicable to. . .the Housing Choice Voucher Program. . or the Section 8 Housing Assistance Payments Programs.*" Also, HUD's position appears to conflict with OMB Circular A-87, which describes using the fee-for-service approach as voluntary. Asset Management has nothing to do with Section 8 - a program that manages no assets. HUD should not artificially apply asset management principles to the Section 8 program and they should not be telling housing authorities

how to spend their administrative fees on programs they are already managing very successfully.

F. Capital Fund

Under existing regulations, housing authorities can use 10 percent of their Capital fund for administrative expenses and additional portions for management improvements, such as computer upgrades, and operations. HUD is now planning to require housing authorities to divide the funds used for administrative expenses into fixed amounts for central, front-line, and bookkeeping costs. It will also disallow administrative expenses on Capital funds spent on operations or management improvements. This will reduce the amount housing authorities can spend on administrative expenses and central costs.

Having to charge a fee for service for direct management of the Capital program will substantially increase accounting requirements, add payroll complications if staff are doing different kinds of work at different times and creating new paperwork. HUD has offered no evidence that this change will help housing authorities administer the Capital fund more efficiently-nor even any claim they are currently administering it poorly.

CONCLUSION

As an Executive Director of a mid-sized housing authority, I am honored to serve the people of Montgomery County, Ohio and the state of Ohio at large. I work with one hundred and eighty employees who on a daily basis attempt to provide decent, safe and affordable housing to the clients we serve. However, I am concerned the impact that the multiple restrictions on the public housing authority's ability to manage its' own finances, the change in funding calculation and imposition of the department's mandates on day-to-day operations, will impair the authority's ability to remain viable in this new conversion. Although we shall conform and be compliant with all federal mandates, I would like to leave you with one question ***"How can the families we serve on a daily basis conform to these changes without being harmed?"***

I would again like to thank you for allowing me this opportunity to address the committee with these concerns.

(Note: Dayton Metropolitan Housing Authority would like to thank PHADA for providing information.)

Mr. TURNER. Terry.

STATEMENT OF TERRY PETERSON, CHIEF EXECUTIVE OFFICER, CHICAGO HOUSING AUTHORITY

Mr. PETERSON. Thank you, Mr. Chairman and subcommittee members, for allowing me the opportunity to testify.

My name is Terry Peterson, and I'm the chief executive officer of the Chicago Housing Authority.

In the last 7 years under the leadership of Mayor Richard M. Daley, Chicago has transformed an agency overseeing some of the most notorious public housing developments in America into a well-managed, forward-thinking public agency overseeing a national model of community rebirth and renewal. This was possible in large part because of the local flexibility and funding commitment embodied in CHA's 10-year MTW agreement and the support of the U.S. Department of Housing and Urban Development Secretary Alphonso Jackson and former Secretary Mel Martinez.

MTW allows PHAs to make decisions and create programs that meet the needs of each individual city. CHA created an MTW plan in conjunction with the residents which met the residents' specific needs, worked within the context of the larger local housing market, and allowed CHA to maximize dollars leveraged.

In 1999, CHA was the poster child for what was wrong with public housing. Over one-third of our units were vacant. Most units were in deplorable condition; 14,000 units were in such bad condition that HUD mandated their demolition. Public housing families were physically and socially isolated, cutoff from the rest of the city of Chicago for decades, and as a result faced multiple barriers to self-sufficiency.

Public housing was considered a blight on neighborhoods, resulting in lower property values in the surrounding area. In 2000, CHA, the city of Chicago and HUD signed a 10-year MTW agreement providing CHA unprecedented local flexibility and funding commitments which were essential to ending the isolation and breaking the cycle of poverty that had so long persisted in and around CHA developments.

Key provisions included, one, a 10-year program commitment. This provided the consistency that is essential to allowing us to maximize private investment in public housing; two, flexibility with the use of funding sources. This enabled CHA to pay for relocation and relocation counseling and social services; three, a commitment to provide the same number of affordable housing opportunities in 2009 as CHA was offering in 2000. This prevented CHA from losing thousands of hard units of affordable housing in what are now hot real estate markets.

In large part because of the flexibility in the funding commitment, CHA has made substantial progress. Since January 2000, CHA has rehabilitated or replaced more than 14,000 units, or 57 percent of the 25,000 unit goal; 8,000 units in mostly gallery-style high-rise buildings were demolished, and construction is under way on almost every mixed-income site.

Where CHA began construction activities, neighborhood revitalization followed. A steady funding stream is one of the most important features of CHA's MTW agreement. As a direct result of

steady funding, CHA obtained significant funding from the private market that allowed CHA to leverage Federal public housing dollars at a rate of 1 to 4. $242 million of CHA dollars triggered over $1 billion in public and private investments in CHA mixed-income communities. For example, in December 2001, the CHA issued the first publicly offered tax-exempt revenue bonds secured solely by public housing capital funds. Proceeds were used to fund a portion of the cost to rehabilitate approximately 12,000 of CHA senior and scattered site units, and effectively jump-start the first critical redevelopment phase.

CHA also leveraged social service dollars; $118 million in CHA social service has triggered over $156 million in support from other public and private sources.

CHA's MTW agreement will expire on January 6, 2010. CHA has already made significant investments in time and resources in developing a successful program. These programs are important to our continued success. Permanently authorizing CHA's MTW agreement will allow CHA to continue to operate under the same terms and conditions. Without permanent authorization, progress made to date will be at risk. CHA supports the proposed MTW charter bill which would make permanent our current MTW agreement and allow us to continue to rebuild the lives of public housing residents.

In conclusion, it is important that we continue to stay the course. As mentioned before, I believe that public housing residents are looking for a hand up and not a handout, and by putting in place the MTW agreement, we will be able to continue to support this type of progress that public housing wishes.

Thank you, Mr. Chairman.

Mr. TURNER. Thank you.

[The prepared statement of Mr. Peterson follows:]

Testimony of Terry Peterson

for the

Subcommittee on Federalism and the Census,

House Committee on Government Reform

May 10, 2006

Testimony of Terry Peterson

I. Introduction

Mr. Chairman and Subcommittee members, thank you for the opportunity to testify. My name is Terry Peterson and I am the Chief Executive Officer of the Chicago Housing Authority. In the last seven years, under the leadership of Mayor Richard M. Daley, Chicago has transformed an agency overseeing some of the most notorious public housing developments in America – into a well-managed, forward-thinking public agency overseeing a new national model of community rebirth and renewal. This was possible in large part because of the local flexibility and funding commitments embodied in CHA's 10-year MTW agreement and the support of U.S. Department of Housing and Urban Development Secretary Alphonso Jackson and former Secretary Mel Martinez.

QHWRA provided regulatory flexibility – but not enough. MTW allows PHAs to make decisions and create programs that meet the needs of each individual city. CHA created an MTW Plan in conjunction with the residents which met the resident's specific needs, worked within the context of the larger local housing market, and allowed CHA to maximize dollars leveraged.

II. Setting the Context

In 1999, CHA was the poster-child for what was wrong with public housing. In 1999:

- Over 1/3 of our units were vacant
- More than 17,000 units were in gallery-style high rises – which included Robert Taylor – the largest single PH development in the nation, with close to 4,500 units.
- Most units were in deplorable condition. 14,000 units were in such bad condition, that HUD mandated their demolition.
- Public housing families were physically and socially isolated, cut off from the rest of Chicago for decades and as a result, face multiple barriers to self-sufficiency.
- Public housing was considered a blight on neighborhoods resulting in lower property values in the surrounding areas.

Why MTW – a vehicle for change

When the Mayor agreed to take back CHA from HUD in1999, the Mayor wanted to be sure that CHA could succeed in better serving its families without repeating the mistakes that lead to severely distressed communities. HUD and CHA agreed that CHA would become an MTW site with the hope that CHA could create new and innovative ways to deliver housing and supportive services.

CHA's Agreement

In 2000, CHA, the City of Chicago and HUD signed a 10-year MTW agreement, providing CHA unprecedented local flexibility and funding commitments which were essential to breaking the cycle of poverty that so long persisted in and around CHA developments. Key provisions included:

1. *A 10-year program commitment.* This provided the consistency that is essential to allowing us to maximize private investment in public housing. Giving the amount of private dollars that were needed to implement the Plan, CHA could not have been successful in reconstructing 25,000 housing units without this commitment.

2. *Flexibility with the use of funding sources.* This enabled CHA to pay for relocation, relocation counseling, and social services. As a result, CHA had the resources it needed to support families through the relocation process.

3. *A commitment to providing the same number of affordable housing opportunities to in 2009 as CHA was offering in 2000.* This prevented CHA from losing thousands of hard units of affordable housing in what are now hot real estate markets. In addition, CHA was given a voucher for every unit demolished and not replaced. This allowed the CHA to offer the same number of affordable housing opportunities to families even as the number of CHA hard units was reduced.

Progress Made

In large part, because of the flexibility and funding commitments, CHA has made substantial progress. Since January 2000, CHA has rehabilitated or replaced more than 14, 000 units, or 57% of the 25,000 unit goal. Eight thousand units of mostly gallery-style high rises were demolished and construction is underway on almost every mixed-income site. Where CHA began construction activities, neighborhood revitalization followed. This is evidenced by the high demand for affordable and market rate units in the new mixed income properties, the other residential and commercial investment that has followed, and the large number of public and private partners that are helping us along the way.

Management of CHA properties awaiting redevelopment also improved. CHA permanently reduced operating costs and moved from a property manager to an asset manager. The professional private property management firms we hired have improved the physical and social conditions in CHA developments. The City of Chicago assumed responsibility for providing services to CHA families, such as police, streets cleaning and social services, resulting in improvements in these areas as well.

A steady funding stream is one of the most important features of CHA's MTW Agreement. As a direct result of steady funding, CHA's obtained significant funding from the private market. It allowed CHA to leverage Federal public housing capital funds at the rate of 1:4. $242 million CHA dollars triggered over $1 billion in other public and private investments in CHA mixed-income communities ($1.3 billion total). For example, in December of 2001, the CHA issued the first publicly offered tax-exempt revenue bonds secured solely by public housing capital funds. Proceeds from the landmark $291,050,000 Capital Program Revenue Bond offering were used to fund a portion of the cost to rehabilitate approximately 12,000 of the CHA's senior and scattered site units and effectively jump-started the first critical redevelopment phase. CHA also leveraged social service dollars. $118 million in CHA social service dollars has triggered over $156 million in support from other public and private sources ($274 million total). Our MTW Agreement was critical to our ability to leverage these monies.

Recommendations

Moving forward, I have several recommendations which would enable the CHA to continue to make the kind of progress I just outlined.

1. Expanding and permanently authorizing the MTW Program

CHA's MTW Agreement will expire on January 6, 2010. CHA has already invested significant time and resources in developing successful programs that are authorized under our MTW

Agreement. Permanently authorizing CHA's MTW Agreement would allow CHA to continue to operate under the same terms and conditions. Without permanent authorization, progress made to date will be at risk. CHA supports the MTW Charter Program bill which would make permanent our current MTW Agreement and allow us to continue to rebuild our communities and rebuild residents' lives.

2. Support continuation of HOPE VI

CHA has used HOPE VI funds as part of its MTW funding. HOPE VI is a significant tool which has enabled PHAs around the country to revitalize severely distressed public housing into thriving mixed income communities. CHA supports the reauthorization of HOPE VI at an annual funding level of no less than $600 million.

3. Provide consistent funds for the public housing Capital and Operating Fund Programs.

Adequate and consistent federal funds for these programs are essential to attracting private investment in distressed communities. Our MTW demonstration cannot be effective without it. We urge you to provide the needed $4.2 Billion to fully fund the Operating Fund and $3.5 Billion for the Public Housing Capital Fund accounts

4. Allow CHA to Leverage its Assets.

In 1998, Congress passed legislation allowing housing authorities to assess the value of their land and other public housing assets to leverage private funds for redevelopment. Unfortunately, HUD has not implemented this provision in a way that allows CHA to move quickly so it can maximize private investment. Congress should direct HUD to implement this provision.

5. Preserve Senior Housing.

Our current senior housing plans are only valid for five years. This is not long enough for us to assure our seniors can age in place in communities especially designed for their needs. We urge Congress to pass legislation making permanent our senior housing plan.

Conclusion

In conclusion, only with more predictable funding and the ability to design housing programs based on local needs instead of Federal directives, can dramatic and rapid reform occur. CHA could not have made the substantial progress without its MTW Agreement. I urge Congress to reauthorize the MTW Program by passing the MTW Charter Proposal bill. Thank you again for having me here today. I encourage you to visit our city and we will show how public housing reform in Chicago is now model for the nation.

STATEMENT OF DOUG APPLE, GENERAL MANAGER, NEW YORK CITY HOUSING AUTHORITY

Mr. APPLE. Good morning. I'm Douglas Apple, the general manager and chief operating officer of the New York City Housing Authority. I want to thank you, chairman, and ranking member, Congressman Clay for allowing us to be here today to testify.

Being from New York, I can talk very fast, and I need to because we have a lot to say. And I think what you will hear from us is somewhat of a different story than what you just heard from Terry, for example.

New York City has been—was the first housing authority, actually started in 1934, even before Federal legislation, and is the biggest housing authority here in the country. We serve 1 out of every 12 New Yorkers, more than 650,000 families, people in our Section 8 and public housing program.

And we believe—and being New Yorkers, we always do this, but we think we are the best housing in the country. We have not had to go through some of the difficult times that Chicago and other cities have, we have not done wholesale demolition, and we believe that's because we've always been able to provide quality services, always really served a mixed-income population.

Today over 45 percent of our families work that live in public housing. We have less than 16 percent families on public assistance. So we believe that the strength of the public housing in New York City is because we serve a wide variety of individuals.

But given that, the challenges have become more complicated in the last few years. Reductions in Federal funding, increased regulation, and really a change in the public housing environment with an aging infrastructure has made it a greater challenge for us to succeed, but we're determined and committed to do that.

In New York, we've recently announced a seven-point plan to preserve public housing. That plan has essential elements that includes an enormous commitment from our mayor, Mayor Michael R. Bloomberg, who will provide a $100 million transitional aid package to the housing authority while we make some difficult decisions in New York, decisions that are right for New York City about preserving public housing.

We did a $600 million capital fund financing bond issue last year that will give us a significant infusion of capital dollars to modernize and maintain our housing stock. In doing so, we were Triple A-rated by Standard and Poor's. I think that those are the kind of measures that HUD needs to think about and Congress needs to consider when you think about how you want to regulate housing authorities. Outcome measures, measures that show performance are really where I think housing authorities are going, and I think the regulatory structure needs to catch up to that.

MTW is a way to achieve that, and we wholeheartedly embrace it. And, in fact, New York, unlike some of the other cities you're going to hear from today, does not have MTW status. It is something that is one of our highest priorities for this year.

We also have been very active in new developments. The mayor has put forth the largest single municipal affordable housing program in the government in the Nation's history, a $3½ billion affordable housing program that will produce 168,000 new and ren-

ovated housing units in the next 10 years. The housing authority, in conjunction with our housing partners in New York, the city's Housing Development Agency and the city's Housing Finance Agency have a pipeline of over 3,000 new housing units using public housing land and public housing buildings. It will allow us to spur new forms of construction to serve a range of New Yorkers, both in terms of low income and moderate income, and work force housing.

One of the biggest challenges we face in a very tight and very hot real estate market in New York is really providing quality housing for the folks that really drive New York, the folks that make $30,000, $40,000, $50,000; the teacher, the fireman, the folks that work in our hotel industry and our entertainment industry. We see the public housing authority as a vital engine in doing so. We believe that MTW is necessary to allow housing authorities to perform in their local economies, to be successful in their cities, and to really thrive.

The Congressman, Congressman Clay, asked for concrete examples of services that we can provide better to residents, and how flexibility can help us do so. We're putting in place a whole new technology base. We have 2 million work tickets a year, maintenance requests from our residents. It is now done in 200 separate locations. We have no way to monitor quality. We have no way to assure services. We're putting in place a new system that will centralize that, using technology and a call center based in Queens that will allow us to assure quality, schedule appointments, and really provide quality service to residents.

Some of the aspects of the operating rules proposed by HUD will limit our ability to do that, so we would encourage you to look very closely at the rules HUD is providing to make sure that they give the housing authorities the flexibility to provide quality services to residents.

Thank you.

[The prepared statement of Mr. Apple follows:]

Written Testimony of
Douglas Apple
General Manager of the New York City Housing Authority
House Committee on Government Reform
Subcommittee on Federalism and the Census

May 10, 2006

Good morning Chairman Turner and Members of the Subcommittee. My name is Douglas Apple. I am the General Manager, or the chief operating officer of the New York City Housing Authority ("NYCHA").

I appreciate the invitation to address the Subcommittee on the issue of whether the goal of deregulating public housing, as recommended by the *1998 Quality Housing and Work Responsibility Act* ("QHWRA"), has been achieved. The best way for me to address the question is to examine the situation now facing NYCHA.

NYCHA is the nation's largest housing authority, operating approximately 179,000 public housing apartments in 334 developments located in nearly every one of the City's residential communities. Our Section 8 program currently serves an additional 87,000 households, working cooperatively with almost 29,700 landlords providing apartments in privately-owned accommodations. Nearly one out of every 12 New Yorkers is assisted by NYCHA in meeting their needs for affordable housing. Moreover, NYCHA is an active partner, along with our sister agencies, in Mayor Michael R. Bloomberg's $7.5 billion *New Housing Marketplace Plan* that will build and preserve 165,000 affordable homes in New York City by 2013.

NYCHA's management is well respected around the country. HUD rates NYCHA as a high performer. In 2005, in connection with a bond financing to address outstanding capital needs that exceed our allocation of capital funding, NYCHA received an "AAA" rating from *Standard and Poors* and an "Aa3" rating from *Moody's Investors Service.*

Yet, resulting from federal operating subsidy that is not keeping pace with rising costs and local housing market factors, the Authority is now facing the prospect of close to a $168 million budget gap. This year presents unique challenges to the Authority as rising operational expenses, such as energy and labor, have produced a structural deficit that requires swift and significant action to regain financial balance.

Unlike many major urban cities, NYCHA has remained stable and has not demolished or disposed of its public housing. Much of this can be attributed to the economic mix of our 179,000 families. Over 40 percent of all families are working, and another one-third of households are led by seniors. We have been able to maintain this economic diversity and the consequent stability of public housing in the face of a rapidly changing real estate market in New York. A foundation of the stability and the economic mix is the extent to which we have been able to maintain rents as affordable.

However, faced with financial pressures, we are now forced to raise the rents paid by a small segment of our residents who pay ceiling or flat rents. Though rents under the proposal will be raised by $25-$106 per month, they will still be affordable and allow for hard-working families

to remain in public housing. This initiative is a part of our recently announced *Seven-Point Plan to Preserve Public Housing ("Plan")*. As part of the solution to NYCHA's fiscal crisis, we are pleased that Mayor Bloomberg has pledged $100 million in Transitional Aid from the City while NYCHA's long-term plans are put in place.

As part of our Plan to address our deficit without additional federal Operating Subsidies, we need to gain HUD's designation as a *Moving to Work* ("MTW") agency to make our Plan fully operational within the necessary time frame. MTW status will also enable NYCHA the opportunity to better apply flexible federal funding to meet our local needs, to provide relief from other unfunded mandates and non-essential administrative costs, to streamline federal rules and regulations and to implement housing and self-sufficiency strategies.

The fiscal crisis we have all feared is here today[1]. It is the reality that my Authority now faces and one that other housing agencies will shortly experience unless our programs are fully funded, we are authorized to combine our funding sources where necessary and the de-regulation promised by QHWRA becomes a reality by opening MTW to well performing, moderate and large housing authorities.

How did we arrive at this circumstance? Basically, the public housing program has been short-funded for years. Cumulatively, since 2001, the impact of pro-ration to NYCHA has resulted in $258.6 million of un-reimbursed operating expenses. The national housing interest groups estimate that operating assistance will be pro-rated at 90% in 2006 and, if the Administration's budget recommendation is adopted, at 78% in 2007.

Federal funding for the public housing capital program is far worse. Appropriations have dropped by 17.5% from 2001 to 2006. We, in New York have taken proactive steps to maintain our capital program through the Capital Fund Financing Program ("CFFP"). Last year, we issued $300 million in bonds and plan to issue a similar amount this year. This type of creative financing will allow us to better maintain our buildings. But it alone is not enough. Congress must provide more capital funds to meet the needs of housing authorities and preserve this critical form of affordable housing.

Providing housing authorities with the ability to access capital markets was one of the visions of QHWRA. Unfortunately, the broader vision; streamlining the public housing program so we could operate more effectively, be less driven by rules that were process-oriented and not outcome driven, tie funding to performance and give housing authorities the autonomy they need to provide high quality housing in their local markets, has not been achieved. Instead, HUD continues to develop rules that require the 3,200 authorities throughout the country to operate in the same restrictive and prescribed fashion.

One such example of this debate is the new Operating Fund rule, which takes effect in January 2007. We strongly support the effort to move to asset management and project-based budgeting/accounting and project-based management. In fact, in the first quarter of this year, we have produced financial statements for each property. Our budget, recently released and on our

[1] I will be pleased to answer questions from the Subcommittee regarding NYCHA's financial condition. However, for the record, our webpage contains extensive and detailed documentation on the issue. The Authority's webpage is located at http://www.nyc.gov/html/nycha/html/home/home.shtml

web site, is detailed for each of our 344 properties. Notwithstanding our new budget and management practices, we remain concerned that HUD's rule, necessarily written generically for all housing authorities, may limit our ability to provide quality services to residents, adds significant administrative burdens, as well as additional paperwork for both our staff and the HUD field staff monitoring our efforts. A better system would allow each authority to develop budgets and budget-based systems, predicated on their own needs and have HUD monitor the outcomes, as opposed to all the thousands of pages of financial statements that we are required to produce.

Anticipating funding shortfalls, QHWRA concluded that it would be in the best interest of the public, and the low-income community, if the public housing program were to be streamlined and if the maximum feasible discretion and authority are vested in well performing public housing agencies. I urge Congress to take the necessary actions to make deregulation a reality.

A fine example of what can be achieved when regulatory and statutory restraints are removed is the *Moving to Work* program, which came into being with the passage of the 1996 VA-HUD Appropriation Act. This demonstration allowed selected agencies to combine their funding streams and to craft, with HUD's cooperation, the type of deregulation that has allowed Chicago, Atlanta and the District of Columbia to experience a rebirth of public and mixed-income communities and the creation of attractive and desirable neighborhoods of which we can all be proud.

The time has come to end the demonstration program and to declare MTW to be the success we all know it to be. HUD Secretary Alfonso Jackson has endorsed the MTW concept, although continues his commitment to a format that has garnered little support within the Congress or within the industry. We appreciate the Secretary's leadership and bold vision, but the time has come to move forward with a politically attainable proposal.

To achieve the deregulation called for by QHWRA, Congress must open the MTW program. HUD should be directed to allow well-performing, large and moderate-sized housing authorities to transition to MTW and allow current participants to continue to utilize the MTW format. *If NYCHA were granted MTW status today, the program's fungibility factor alone would allow us the ability to close nearly $40 million of our fiscal deficit* ***without seeking a single additional dollar of appropriated assistance.*** The best practices learned during the demonstration period should be available to new participants. Limitations on the number of participating agencies should be dropped. Moreover, the term of eligible participation should be discarded, allowing agencies to take advantage of the program's flexibility to adopt different formats as local conditions change and merit modification. That would end the annual trek to Capital Hill to have current agreements extended for additional time periods. We support legislation that fulfills the promise of QHWRA and makes MTW available to all. We understand that a proposal by CLPHA and PHADA does that and we encourage Congress to consider it in the on-going debate.

Finally, there is only so much that can be achieved through deregulation. Without full funding, the struggle continues. Simply stated, Congress must fully fund both the Operating Subsidy and the Capital Fund. Deregulation, with reduced funding, will only result in other agencies facing the financial crisis that are now faces New York City.

Thank you.

Mr. TURNER. Steven.

STATEMENT OF STEVEN D. RUDMAN, EXECUTIVE DIRECTOR, HOUSING AUTHORITY OF PORTLAND

Mr. RUDMAN. Thank you, Chairman Turner, Ranking Member Clay, for the opportunity to testify today.

The question you're asking about public housing flexibility is indeed a critical one for our industry. I'm speaking as the director of the housing authority in Portland, OR, a midsized housing authority that's had the privilege of working under MTW for the past 7 years, recently extended for 3 more. So I would say as an MTW, the answer is yes, MTW does go a long way in removing barriers to effective management of resources in an environment where it's exceedingly difficult to manage.

HAP owns over 4,000 units of work force and special needs housing in addition to 2,500 units of conventional public housing, so we have an excellent vantage point from which to view the transition of traditional public housing to an asset management model. We also understand what it takes to develop new housing. We serve as developer for 21 of our 33 local developments, and are currently self-developing two HOPE VI projects.

I'd like to briefly make four points. First, housing authorities must be allowed to be true asset managers of public housing. At HAP, we initiated our transition to property-based management well before HUD issued its prescriptive operating rules because it made good business sense to us.

However, the shift will not be compete without access to capital markets or the ability to use debt financing as a tool in managing public housing. HUD has taken a step of allowing financing on future capital grants through QHWRA, but this tool is limited and has a finite cap.

Housing authorities should be able to attach debt to conventional public housing much more broadly by using operating funds in addition to capital funds to develop new housing, and by granting mortgages and security interests in public housing properties to help need tremendous capital needs.

My second point is that the flexibility very few of us have under MTW should be extended to a broader group. This flexibility gives MTW agencies tremendous ability to tailor policies and programs to local conditions, needs and priorities.

We've used this flexibility to expand our self-sufficiency program in Portland. Over 500 households from public housing in Section 8 have graduated off public assistance; 40 percent of those have become homeowners. We also use it to approach our Section 8 funding crisis in innovative ways.

The third point is one I know you have heard from others in a previous committee hearing in terms of the need to increase support for HOPE VI. This program has been invaluable in replacing the Nation's most distressed public housing with vibrant mixed-income communities. There is no other development tool for public housing that comes close to matching the benefits of HOPE VI, which leverages private investment and supports critical social services and community development activities.

My fourth and final point is this: I'd like to urge anyone who is considering the design of new public housing initiatives to build in requirements for collaboration from the outset. Housing policy shifts over the last several decades have resulted in housing authorities serving a very poor client base. Even as an MTW, over 90 percent of our Section 8 and public housing households are in way below 30 percent of median income, and 50 percent of that population are elderly and/or disabled, and that population continues to grow.

We provide a safety net in our communities, but we cannot do it alone. It takes much more than housing to help create positive change in our clients' lives, and funding for social services and community development activities is as great of a challenge as it is for funding for affordable housing.

It is critical for those of us who have some resources to support the most vulnerable, to find ways for those precious tools to be used more collaboratively and systemically. I believe Federal funding and policy can promote greater ways to do just this.

Finally, I just have a concern. While flexibility is a key question, so is adequate funding. They're not mutually exclusive, and one does not compensate for the other. All the flexibility in the world will not maintain the decades-old physical housing stock that continues to age as we sit here. It will not reverse market trends which are driving rents and home prices up in our region and other areas of the country. It will not offset the effects of working with the very poor population that has increasingly less access to services.

We can and we will as an industry improve how we manage public housing, but it will take good management, program and policy flexibility, as well as adequate resources to preserve this resource well into the century. I thank you for your support in the past, and look forward to efforts in the future.

[The prepared statement of Mr. Rudman follows:]

Written Testimony of Steven D. Rudman
Executive Director
Housing Authority of Portland

Before the U.S. House Committee on Government Reform
Subcommittee on Federalism and the Census

May 10, 2006

Thank you Chairman Turner and members of the subcommittee for this opportunity to testify today. The question you are asking – "Public Housing Management: Do the Public Housing Authorities Have the Flexibility They Need to Meet the Changing Demands of the 21st Century" – is a critical one for our industry.

I am speaking today as the executive director of a mid-size housing authority that has the privilege of operating under the deregulatory authority of the Moving to Work demonstration program. There are less than 30 MTW agencies – not even one percent of the housing authorities nationwide. I believe all of us would answer "yes" with varying degrees of enthusiasm in response to your question. I also believe that our colleagues who do not enjoy MTW status and operate under QHWRA as currently implemented would give you a resounding, collective "no" for an answer. In my view that is not so much a criticism of QHWRA – which granted the industry significantly more flexibility than it had previously – as it is a recognition that Moving to Work goes much further in removing the barriers to effective management of resources that are exceedingly difficult to manage.

I also am speaking to you today from the perspective of a housing authority that has two affordable housing portfolios. We own and operate 2,500 units of traditional public housing. We also own – often in partnership with others – 4,000 units of workforce and special needs housing. We have built this portfolio over the last 15 years with public and private financing, using tools such as our bonding authority and the federal Low Income Housing Tax Credits. We serve as asset managers for this portfolio and contract with property management firms to run the properties on-site. So, we have an excellent vantage point from which to view the transition of traditional public housing to an asset management model. We also understand what it takes to develop new affordable housing. We served as the developer for 21 of our 33 affordable housing properties, and we are performing that role for the two HOPE VI redevelopment projects we have underway.

So, bringing MTW experience, and taking our housing authority's deep background in development and asset management into account, I would like to make four points today in response to the question you posed.

Testimony of Steve Rudman
Executive Director
Housing Authority of Portland

GIVE HOUSING AUTHORITIES ALL OF THE ASSET MANAGEMENT TOOLS THEY NEED

First, housing authorities must be allowed to be true asset managers of public housing. At the Housing Authority of Portland, we have fully embraced the shift to a property-based public housing management model. We manage staff at the site level, budget at the site level, financially account at the site level, take applications at the site level, and otherwise do business as the private or nonprofit sectors would. Our transition has been underway for two full years. We initiated it in advance of HUD issuing its operating rule on public housing management because it made good business sense to us.

However, the transition to true asset management will not be complete without access to capital markets or the ability to use debt financing as a tool in managing public housing – capabilities available in any standard asset management tool kit in the non-profit and private sectors. This was provided for by QHWRA but hasn't yet been fully implemented. HUD has taken the step of allowing financing on future capital grants. We were one of the first housing authorities to use this tool, and it helped us underwrite one of our HOPE VI redevelopments. While it took us six months from our decision to use this tool to closing, we understand that other housing authorities have found the process longer, more arduous, and expensive. We would advocate strongly for a more streamlined process for transactions that meet certain requirements.

More importantly, the tool is limited because it has a finite cap. Housing authorities should be able to attach debt to conventional public housing much more broadly. QHWRA provided for this need and authorized housing authorities to use operating funds in addition to capital funds to develop public housing in partnership with other entities. The act also permits housing authorities to grant mortgages and security interests in their public housing properties. We are interested in both sets of tools as we look to future development. For instance, we are looking at including public housing units in our existing affordable housing properties. However, HUD has not issued regulations for either approach, and lawyers have cautioned us that our MTW status may not give us the authority to proceed without these regulations in place. The ability to use these conventional real estate financing tools more fully also will help housing authorities meet the tremendous capital needs we have for our existing public housing. This need is universal among housing authorities with public housing, no matter what the size of our portfolios, as the capital funding we receive simply is not adequate.

EXTEND MOVING TO WORK TO A BROADER GROUP OF HOUSING AUTHORITIES

My second point today is that the flexibility just a very few of us have under the Moving to Work program should be extended to a broader group of housing authorities. This flexibility gives us tremendous ability to tailor policies and programs to local conditions, needs, and priorities. At the end of the day, that is the most important benefit a housing authority can bring to its community. Let me give you three examples from our own experience with MTW.

Testimony of Steve Rudman
Executive Director
Housing Authority of Portland

We were one of the first three housing authorities in the nation to receive MTW status. At the outset of the demonstration, we set our sights on helping our residents achieve self-sufficiency and used our ability to move funds between programs to support this effort. Moving from housing assistance to homeownership may sound like a straightforward path, but I can assure you that it isn't when you face the barriers that some of our residents live with each day. Typically, we work with residents over the course of five years to make sure they have the tools, the services, and the encouragement they need to achieve the life goals they set at the outset of our program. Since becoming an MTW agency, 445 residents have graduated from our self-sufficiency program – left public assistance – and 40 percent of them have become homeowners. We would not have achieved these results without the additional investment in this program that MTW flexibility allowed us to make.

MTW also has given us the flexibility to use our Section 8 resources to create a local project-based Section 8 program that has significantly expanded the stock of affordable housing in our community. Over the last four years, we have dedicated more than 800 of our 8,000 vouchers to this endeavor. The ongoing revenue support we have been able to provide non-profit partners with this resource often is the critical gap funding that allows them to secure other financing for their development projects. Using our vouchers as leverage has resulted in 15 partners being able to develop or preserve thousands of affordable housing units throughout our county. And while that outcome alone is impressive, we also take great satisfaction in knowing that the units that are supported directly by our Section 8 dollars provide a home for residents who are among the hardest to house – people who would not succeed in our traditional Section 8 voucher program. This program was designed in response to local need to help this population and a desire to leverage our resources with other available community support for affordable housing. We would not have had the ability to tailor the program as we did without MTW authority.

MTW authority also helped us grapple with the Section 8 funding shortfall we faced in 2004. If you recall, that was the year that HUD changed how Section 8 was funded. Rather than reimburse housing authorities for actual program costs, we were funded at a level comparable to our costs during a three-month period in the prior year. As a result, we faced a $4 million gap between program costs and funding for 2005. We posed a very simple question to our Section 8 participants and community stakeholders: should we provide the same number of people with less support or provide the same support to fewer people? Our participants and our community overwhelmingly favored serving the same number of people, even if it meant less assistance. I can't tell you how heart wrenching it was to read the letters advocating this approach from participants who told us that they would cut back on food and certain medications, if need be, if it meant that no one would be dropped from the program and every voucher would be used. And when presented with an array of choices that would accomplish the goal they desired, our community said they would prefer we raise the percentage of income our participants pay toward their rent. So, if you are a Section 8 participant in Portland, Oregon, you pay a minimum of 35 percent, rather than 30 percent, of your income toward rent. While this situation is far from ideal, it was the preferred choice of our community. And it wouldn't have been possible without the flexibility we have under MTW.

Those are just three examples of what we've been able to do under MTW. It's unlikely you will find another housing authority that has made exactly the same choices. And that's just the point

– MTW gives all of us the ability to map a path that takes us where our community needs us to go. Providing this capability to more housing authorities would give them a very powerful tool for coping with the demands this century will bring.

CONTINUE AND INCREASE SUPPORT FOR THE HOPE VI PROGRAM

My third point today is one I know you've heard from others: I urge you to continue and, in fact, increase, support for the HOPE VI program. As you heard at the February hearing, the HOPE VI program has been invaluable in replacing the nation's most distressed public housing with vibrant, mixed-income neighborhoods that lift their communities up. There is no other development tool for public housing that comes close to matching the benefits of the HOPE VI program. The grants allow for, and indeed mandate, critical social services and community development activities. These elements, combined with the new housing, provide benefits far beyond those that new housing alone can bring.

We have experienced this first hand in Portland. Our first HOPE VI redevelopment – New Columbia – is replacing 462 World War II era public housing units with an 864-unit, 82-acre community that features a mix of public housing, workforce rentals, and homes for sale. The new development has what we affectionately call a good, old-fashioned main street to bring residents and their surrounding neighbors together. You can stroll down our main street and find a city park complete with community garden and fountain, a neighborhood grocery store, a coffee shop (essential to any self-respecting neighborhood in the rainy northwest), and a lifelong learning and work center that is a partnership between our agency, Portland's community college, the state department of employment, and our regional workforce investment organization. Our main street will also serve the book ends of any healthy community – the oldest and youngest among us – with senior housing at one end of the avenue and a new public elementary school and Boys & Girls Club at the other.

This $200 million investment in an area of our city that has been historically underserved began with a $35 million HOPE VI grant. The dollars are impressive, but the true value of the program lies in the fact that lives will change for the better and an entire community will be repositioned and healthier. It is for the promise being realized at New Columbia that we support efforts to extend the program. We also support efforts to strengthen the program by requiring that participating housing authorities collaborate even more closely with community partners, such as local schools, to ensure these investments continue to be realized over many decades and by more than one generation of residents and their neighbors.

REQUIRE LOCAL COLLABORATION AND PARTNERSHIPS

And this brings me to my fourth and final point: I'd like to urge anyone considering the design of new public housing initiatives to build in requirements for collaboration from the outset. Whether conscious or not, housing policy shifts over the last several decades have resulted in housing authorities serving a very poor client base. At our housing authority, nearly 90 percent of the households in each of our federally funded programs – public housing and Section 8 –

make less than 30 percent of our area median income. Some 50 percent are elderly and disabled, and the disabled population has been growing steadily as a percentage of the total. We truly serve the poorest of the poor, and our community sees us as an essential safety net. We accept and embrace this mission, yet we know we cannot do it alone.

In reviewing the testimony from the February panels, I found myself agreeing, again and again, with Alexander Von Hoffman. He is absolutely right that housing is not a panacea. It takes much more than housing to create the proverbial village. And just as funding for affordable housing is a challenge to find at every level of our government, so is funding for social services and community development activities. Under these circumstances – which many do not see changing perceptibly no matter which way the political winds blow – it is critical that those of us who have resources to support our most vulnerable find ways to use those precious tools more collaboratively and systemically. This, of course, is much easier said than done, even at the local level, where alliances and coalitions come more naturally. So it is imperative that those who wield policy and fiscal power at the federal level look for creative ways to promote partnerships among those of us who serve the very poor at the local level.

TWO CONCERNS ABOUT GREATER FLEXIBILITY

In conclusion, I'd like to address a concern you may have about greater flexibility and then share a concern I have about this outcome.

First, the concern I might have sitting in your seat: should we extend greater freedom to a group of organizations when some of them have had serious management issues over the years? And with that freedom, will they abandon the very people who need their services the most? I need only look to the MTW housing authorities to answer that question. Admittedly, all of us were housing authorities that were "high performers" by HUD standards. But none of us took MTW as an opportunity to lower our performance standards. If anything, we feel more pressure today: we must continue to perform at a level of excellence that demonstrates why we deserve this status and we must find ways to innovate and change to better meet local needs. We also have committed to serving the same resident profile that we had at the outset of the demonstration. Speaking for Portland, I can tell you that our client population has become even more needy in the seven years we've operated as an MTW agency.

Now, my concern: while flexibility is a key question, so is adequate funding. They are not mutually exclusive, and one does not compensate for the other. All the flexibility in the world will not maintain decades-old physical stock that continues to age as I sit here. It will not reverse market trends, which are driving rents and home prices up in our region and many other areas of the country. It will not offset the effects of working with a very poor population that has increasingly less access to services. We can, and will, improve how we manage public housing. But it will take good management, program and policy flexibility, and adequate resources to preserve this resource well into our new century. I thank you for your support in the past and hope it will continue, on all fronts, into the future.

Mr. TURNER. Betsey.

STATEMENT OF BETSEY MARTENS, CO-EXECUTIVE DIRECTOR, BOULDER HOUSING PARTNERS

Ms. MARTENS. Thank you, Mr. Chairman, members of the committee, for this opportunity to testify today and for holding these hearings which are not only well-timed, but absolutely essential.

I'm Betsy Martens, the co-executive director of Boulder Housing Partners, the housing authority serving the city of Boulder, CO.

I am also pleased to serve as the chairperson for the Public Housing Subcommittee of NAHRO, the National Association of Housing and Redevelopment Officials, and as a member of NAHRO's Board of Governors.

Mr. Chairman, we face a significant problem in the management of public housing today. In my portfolio of 991 units, of which I have 6 different housing types, public housing is by far the most difficult thing I manage. In my written testimony I've tried to give you a reasoned and articulate response about why that is, but for purposes of summation here today, I want you to know that public housing is so difficult to manage because it's unlike any other asset in my portfolio. Other than roofs or walls or residence, it bears no resemblance to real estate. Its current regulations are complex, cumbersome and constantly changing, and they quite literally put the asset at risk.

I suggest that we have to do five things. First, we need to reform the way rent operates in public housing. There are two fundamental problems; the first is that rental income is not tied to the economics of public housing, and I'll come back to that in a second. The second is that rent structure is complex, invasive and very expensive to implement. We need to replace it with a simple system that empowers our residents and also preserves our collective investment in public housing.

The second point and second thing we need to do is attend to the very real capital needs of this portfolio. My public housing was built in 1972, which means it's nearing the end of its physical life cycle. Despite careful attention to maintenance and good stewardship of the asset, we have significant deferred maintenance. We need a national preservation strategy for this essential irreplaceable asset.

The third thing we need to do is achieve meaningful flexibility and deregulation. Contrary to its intent, QHWRA has not deregulated our agency; I suggest that it has reregulated our industry. We spend as much, if not more, staff time in HUD compliance than we ever did.

The fourth thing we need to do is recognize that public housing residents come to us with problems that are not only or always economic. I think we need to end the decades-old debate about whether we're property managers or social services providers. The two are inextricably linked, and we are both. We need to incorporate resident services into the fundamental program and recognize it as a cost of doing business.

And finally, I believe we need to restructure the underlying finance. Currently the system is upside down, and I believe that most of the problems that we're talking about here today in this

panel could be solved if we could change the way funds flowed to public housing. I need an economic rent that covers my cost to operate, including resident service, and allows me access to the capital markets. A subsidy then would bridge a family's income to the rent.

Mr. Chairman, I just talked to you about the need for flexibility, and I have to underscore a concern in our industry as HUD mandates a transition to asset-based management.

The principles of asset-based management are excellent, they're well-tested, they come to us from the private sector, and I've been using them in my housing authority for more than 10 years where they make sense. Most housing authorities don't have a public housing portfolio in which it justifies a project-based management approach. We're in an all-too-familiar pattern of HUD prescribing a one-size-fits-all solution where the very essence of asset management contravenes that idea.

Asset management means portfolio responsiveness and lots of flexibility. We're very, very concerned about the way HUD is approaching not only asset management, but project-based management. I think HUD should promote the principles of the best practices in the industry, but not insist that there is only one way for us to manage.

In closing, I'd like to say that it's imperative that we find reasoned and responsible change. I see the industry at a tipping point where we risk losing the deep affordability that public housing represents for millions of families for whom we cannot afford to lose this affordability. We need to take a very deep and thoughtful look at the programs and start testing new ideas through pilot programs.

Mr. Chairman, absent a very thoughtful and reasoned policy about public housing, I'm seeing my colleagues exit in ways that I think put this country at risk.

Thank you for this opportunity to testify. I offer all that my staff and my colleagues and the Rocky Mountain States can bring to the discussion as it proceeds. Thank you very much.

Mr. TURNER. Thank you.

[The prepared statement of Ms. Martens follows:]

Testimony of Betsey Martens

Co-Executive Director
Boulder Housing Partners

Before the House Government Reform Committee's Subcommittee on Federalism and the Census

Regarding Challenges Facing Public Housing

May 10, 2006

Testimony of Betsey Martens
May 10, 2006

Testimony of Betsey Martens, Co-Executive Director
Boulder Housing Partners
Before the House Government Reform Committee's Subcommittee on Federalism and the Census
Regarding Challenges Facing Public Housing
May 10, 2006

Mr. Chairman, I want to sincerely thank you for the opportunity to testify today and for holding this very important hearing. My name is Betsey Martens. I am the Co-Executive Director of Boulder Housing Partners (BHP), the public housing authority serving the city of Boulder, Colorado. I am also pleased to serve as Public Housing Subcommittee Chairperson of the National Association of Housing and Redevelopment Officials (NAHRO) and as a member of NAHRO's Board of Governors.

As we meet today we face a significant challenge in the management of public housing. Public housing is an irreplaceable asset that the federal government has invested in for over seven decades. In my community, public housing provides a safe, decent and affordable home to more than 857 low-income, elderly and disabled individuals. Together with my colleagues at this table, and around the country, we provide housing for millions who have serious housing needs due to age, income or disability. We fight the good fight everyday because we know that public housing represents, for many very low-income families and individuals in our communities, the line between decent shelter and homelessness.

Public housing is a largely successful response to our country's long-standing commitment to ensure that those of lesser means are well housed in decent, safe and viable communities. That success notwithstanding, within my portfolio of 991 units, and among six different housing types, public housing is by far the most challenging asset I manage.[1] Why is this?

In preparing for this hearing I have searched for a reasoned response to this question. The answer I have arrived at is simple. I cannot manage public housing the way I need to manage it, nor can I manage it as I do the other assets in my portfolio that I run like conventional real estate. I have an essential community asset (and let me say right from the start that, contrary to popular belief, the number of people living in poverty in Boulder exceeds the national average) that I take great care of it, but current regulations quite literally tie my hands and put the asset at risk.

As a result, I have begun a process in Boulder of disposing of our public housing. Our disposition strategy will result in a repositioning of the asset and does not reflect a decision to abandon the deep affordability that public housing represents. To the contrary, for Boulder, it means that we believe we have found a way, through current regulation, to do it better.

Given the vital importance of this asset, and the extent to which I would prefer to keep public housing and avoid a disposition process, the bottom line is that if I were able to run this real estate

[1] The six types of housing are: Public Housing (383 units); Section 8 project-based certificate (124 units); Section 8 project-based vouchers (45 units); Low Income Housing Tax Credit (141 units); Workforce Housing (210 units); Market-rate Housing (126 units)

in the way I know how, and manage it like a conventional real estate asset, most of the problems I will describe to you in this testimony would be significantly mitigated.

In order to manage this inventory successfully, five fundamental imperatives must be addressed:

1. Rent reform
2. Preservation of the physical asset
3. Flexibility to reflect local market conditions and the ability to operate in a de-regulated environment
4. Recognition of the significant service needs of our residents
5. The ability to restructure the underlying financing

Rent Reform

I have 383 units of public housing and I have 383 different rents. Rent is based on 30% of each family's adjusted income, accompanied by a subsidy from HUD that, theoretically, covers operating costs. This approach is exactly backwards. Currently, the amount of rent a family pays is tied to their adjusted income. The subsidy I receive from HUD is tied, loosely, to my cost of operation. More logically, the amount of rent I receive needs to be tied to my cost to operate. The subsidy needs to be tied to family income. Otherwise, from year to year, and even from month to month, I don't know what income I have to work with to maintain a significant and varied housing portfolio.

The rent I receive is unrelated to the product itself and my cost to manage it. The rent paid by residents is unrelated to the value they receive and the rent they would pay in the market. In communities where neighbors talk, few can make sense of why one family, living next door to and in the exact same apartment as another family, might be paying $400 per month less for the same value. The inevitable underside of the safety net we have created is that our residents find the current rent policy confusing and invasive. In the worst case, our rent structure fosters deception and, for some, can actually discourage work.

A rent based on income puts tremendous pressure on its definition. Over 27 years of implementing income-based rents, HUD has developed a complex and convoluted set of regulations governing the definition of income. My property management staff spends often up to 60% of their time calculating rent. I need them, instead, to be out on our properties, talking to our customers, leasing units, walking the grounds, planning programs, solving problems, considering future needs of the property and generally being a positive and visible part of the housing community. Instead, they are tucked away in their offices poring through shoeboxes full of medical receipts.

I need to have residents who are motivated to increase their income, rather than motivated to hide it to keep their rent low. A system that rewards a low income is no champion of self-sufficiency or increased prosperity. Twenty-five years ago, as the Director of my local Community Action Agency, I lobbied my housing authority for rent reform in my role as a tenant advocate. No less a tenant advocate today, I still object to the principle that every time one of our families gets a raise, the housing authority is there holding its hand out, wanting 30% of that raise in rent. How are families supposed to get ahead if they can't put their increased income in the bank?

If we could simplify rent, we would free up significant resources for both housing authorities and HUD. We have developed a tangled web of complexity and oversight in the interest of rent

integrity. We now have three required levels of income verification on a reporting form that has grown from two pages to 11. There is a massive investment of money and time for all of us to force, and enforce, rent integrity in a system that seems almost designed to invite applicants and residents to report inaccurate income, either by mistake or intention. I agree that the elderly family, who reports only one of their two Social Security incomes because the 90-year-old patriarch grew up in an age where only men were the breadwinners, should pay their fair share. I think we can improve a system in which I will spend hundreds of dollars in staff time to get this additional $127 in rent, and HUD will spend much more to check to see that I have gotten it right.

HUD has introduced a tool that shows some promise. But, like many HUD tools, it has been released before it is ready for prime time. The new Enterprise Income Verification (EIV) system is helping us find unreported income. We are optimistic about the ease with which we may be able to verify accurate income. But there are notable, if not painful, flaws. For example, one of our participants, a 72-year-old woman living with her 81-year-old husband on an Old Age Pension, was recently a victim of identity theft. As a result, EIV reported to us that her pension is now supplemented by full time employment at a fishery in Portsmouth, Maine. HUD would have us take that information as fact, despite the improbability of the commute, and perhaps even her suitability for the work. Had we not recognized her name and intervened to check the information using a different database, her new income would have increased her rent from $330 to $895, which she would have been obligated to pay while she, personally, worked to regain her Social Security identity and prove to us that she is not working at a fishery in Maine.

Our alleged fisherwoman is not the only victim in this story. We transmit every income and rent calculation to HUD through a massive database called the Public Housing Information Center (PIC). PIC will reject her file because her income registered in EIV will not match the income that we have verified and reported. If more than 5% of our files are rejected in a month, HUD will sanction us by withholding 5% of our subsidy until the problems are corrected. EIV is reporting dozens and dozens of false income reports that, besides being wrong, lag three or more quarters behind real-time. These false reports may even be the source of HUD's impression that there are many ineligible families participating in housing assistance. Nonetheless, the time and expense for us to maintain PIC reporting is a problem that I will address in more detail below.

The Quality Housing and Work Responsibility Act of 1997 (QHWRA) tried to address rent reform. The spirit of the legislation was right, but the implementation took only a half step and made a program that, for my community, confounds rather than contributes. We are now required to define a ceiling rent—in other words a market-comparable rent—for our public housing units. We offer residents a choice of the ceiling rent or an income-based rent, with the caveat that a loss of income can trigger a return to the income-based rent. This is the half step. We cannot have a rent system that requires us to forgo rental income when family incomes go up and forgo rental income again when incomes go down. It doesn't take long for that system to fail and cross over to become a net loss.

In our community, we try to implement the rent options with a straight face. The average income of the 112 public housing residents living in one-bedroom apartments in my housing authority is $8,360 annually. Their rent based on income is an average of $209. Every year we ask them if they would like to continue paying $209 or would they prefer to pay the flat rent of $600. You can imagine the answer. And, of our 383 public housing families, we have 8 families paying the flat rent.

Testimony of Betsey Martens
May 10, 2006

QHWRA gave us rent choice, not rent reform. Rent choice, for us, is like putting perfume on a dog that has had a run-in with a skunk. What we need to do now is wash the dog, not freshen her up. The whole system needs to be taken apart and rebuilt. We all have to be asking the question of whether spending millions to enforce compliance with an inherently flawed system makes more sense than simplifying it and redirecting the resources to more productive goals. We all need a rent system that supports an asset management strategy that will preserve our collective investment in public housing, which we consider to be an irreplaceable asset.

One place to start is to adopt a percentage of gross income rent structure with a single standard deduction for those who qualify for medical expenses. This approach needs to acknowledge the differential tax treatment of earned income, pension income and unearned income. Eliminating all deductions to income other than a single, and standard, medical allowance would go a long way towards simplifying the system and minimizing confusion for residents. This strikes me as the best option for elderly and disabled families whose income is fixed.

A percentage of gross income achieves the rent simplification goal but does not address the current disincentive to work. In order to promote work and self-sufficiency, we need to also evaluate a flat rent system. A flat rent would not be affected by increases in income, allowing a family to protect their savings. In either case, we need to move quickly to rent reform, because the cost of the current system, as the box below demonstrates, may be our undoing.

The Cost of Calculating Rent

Our elderly and disabled residents who are eligible for a medical deduction often come into our office with shopping bags, and even the occasional suitcase, full of receipts for items purchased under doctor's orders. Staff sort through a year's worth of receipts for everything from bananas and Vitamin C to prescriptions and Depends. Not only does this take hours and hours of staff time, but it is overly invasive to the resident.

We have one resident with more than 35 prescribed supplements, each one requiring a calculation of future cost done by reviewing the label, dividing the number of pills in the bottle by the daily dose prescribed and multiplying by the cost of each bottle. Imagine doing this not only 35 times for one customer, but for everyone in your caseload who claims a medical deduction.

Each certification of income takes 5-6 hours. Each of my staff has a caseload of approximately 150 units. If they spend five hours calculating rent, that is 43% of their time as property managers just assigning rent! And that is assuming someone's rent does not change in the year. We adjust rent within ten days if someone has an increase or decrease of income. With rent adjustments, our property managers are spending 60% of their time assigning rent to a unit. Compare that to an FHA or private sector manager who spends almost no time in rent calculation and limited time in income verification. Property managers then have time to talk to customers, walk the property, plan for improvements and manage their sites.

Testimony of Betsey Martens
May 10, 2006

Preserving the Asset

Our capital investment program at Boulder Housing Partners guides our investment of funds by four priorities: life safety; general risk or code enforcement; building system failure; and landscaping/appearance/resident requests. Our annual funding from HUD in the amount of $923 per unit annually ($350,000 total, net of administrative and operating costs) allows us to just barely address the first three. The impact of ignoring systems and curb appeal is not trivial. We are the largest producer of affordable housing in our community. The way our properties look in the community is our own particular testimony to nervous neighbors and to our belief that the new project we are proposing will be an asset to their neighborhood.

Our first public housing units were built in 1972, meaning that the entire system is reaching the end of its life cycle. Despite a talented maintenance staff that is expertly managed, our assessment is that we are currently deferring close to $1 million in improvements annually. Our 20-year capital needs assessment confirms this and, more to the point, a project underway underscores the amount of ground we have lost due to the absence of appropriate capital tools. I mentioned that we have begun the process of disposing of our public housing because, despite our deep commitment to the affordability and excellent management practices, we have concluded that we can no longer fulfill our fiscal responsibility if we keep public housing in our portfolio. In this first project, we will sell 46 units of public housing built in 1982 into a tax credit partnership in which 26 additional units will be built on the site. Our cost to make the public housing units comparable to the new tax credit units is $42,000 per unit. The redeveloped site will include 72 units, with the original affordability preserved by using project-based vouchers.

I agree that one solution for public housing is to encourage a broader cross-section of lower income families. However attracting those families to housing in which building system and curb appeal needs, despite attentive and careful maintenance, have been deferred will become a more impossible goal each year that we let the problem grow. Capital needs, not unlike the needs of willful children, do not just go away if we leave the room.

The current system of annual allocation of funds is inefficient and promotes a band-aid approach to asset maintenance. We have to staff the program at .75 FTE just to comply with the oversight requirements that go beyond the good practice of reporting, planning and involving residents. These reporting and tracking requirements are cumbersome. And, while involving residents is great practice, it reminds me of the three days I spend to prepare my need-based public housing budget only to have HUD award me a percentage of last year's funds. In a resource-restricted environment, asking people what they want, or need, may not make any sense.

The comparable investment for a private sector manager working on $350,000 of capital improvements, according to industry convention, would range from 3-5% of project cost, or $17,000 in my case. It would be rare, however, to find a private sector owner managing a small-scale improvement program. They would implement a one-time cost-effective major renovation project. QHWRA tried to address that problem by allowing us to leverage our Capital Fund but, eight years later, the regulation has still not been written. In addition, the process to package a Capital Fund-leveraged deal is daunting, at best. We often feel that we're asked to address the most challenging maintenance needs in our community with one arm tied behind our backs.

QHWRA intended to take us a step closer towards reasonable management by allowing some fungibility between Operating and Capital Funds. While I am grateful to be able to redirect 20% of my Capital Funds to operations, which I do because I absolutely must, I am diluting a resource

that is already thin. Luckily, in Boulder, we have a community that understands the critical need to preserve the assets in which we have invested. The City of Boulder has funded a long list of capital improvement requests through their HOME and CDBG allocations, as well as a local housing trust. I am greatly concerned when I hear that CDBG is scheduled to be reduced by 25% in the FY 2007 budget. How will the citizens who advise our city about the allocation of housing funds weigh my very real needs against the equally pressing needs of the homeless shelter and the safe house?

If I were in a community in which I had to rely entirely on Capital Funds, I would have no other cards to play and my second arm would be tied up with the first. I would be losing ground even faster than I am.

Flexibility and Deregulation

Contrary to its original intent, my observation of QHWRA, backed by our experience in Boulder and shared by my colleagues in the western states, is that it has done nothing to decrease the amount of HUD's oversight and micromanagement. In fact, there is much to suggest that it has worsened. That being said, there are some things to be grateful for with the passage of QHWRA, particularly the merger of the Section 8 certificate and voucher programs, the elimination of federal preferences, the disposition provisions and the repeal of the one-for-one replacement requirement.

I think, however, that the deregulation contemplated in QHWRA is really re-regulation. We now spend a large amount of staff time on the new administrative provisions of QHWRA, specifically the agency plan, the community service requirement, the de-concentration of poverty requirement, the income targeting strategy, rental integrity and its associated PIC reporting, the Public Housing Assessment System (PHAS) and the new field review process, to name just a few.

The new regulatory requirements that have created the most burden for us are the latter three, all of which have been carried out by HUD at its own initiative in the spirit of oversight—PIC reporting, PHAS, and HUD comprehensive reviews—and end up being very costly.

Public Housing Information Center

For my 383 public housing units and 600 Section 8 vouchers, I have to assign the equivalent of .5 FTE to manage our PIC reporting. PIC requires us to report monthly on a wide range of activity including move-ins, move-outs, vacancy rates, annual re-certifications and interim re-certifications. We now report almost every resident action to HUD using an eleven-page form that populates a database allowing HUD to know more about residents and housing authorities today than ever in the past. The database is impressive, but I really wonder who is looking at this data and how we are using the information. Will there be a return on investment to all of us for this effort? And, I have to wonder what is being sacrificed while housing authorities and HUD are reporting and collecting millions of pieces of data.

I do not want to send the wrong message. I am a very strong advocate of good stewardship of taxpayer dollars and fiscal responsibility. But we seem, at this point, a bit out of bounds. Perhaps the problem is that the technology is not capable of implementing the regulatory requirements. We spend a disproportionate amount of staff time correcting PIC problems in order to avoid the sanctions associated with reporting under 95%. I believe there is a better way to do this.

Testimony of Betsey Martens
May 10, 2006

PHAS

PHAS (the Public Housing Assessment system) replaced the Public Housing Management Assessment Program (PHMAP). PHMAP was a useful tool for me and I included its performance indicators in my management reports. In its place we have PHAS, which is not helpful to me and seems to be based on an unproductive culture of trying to catch us doing something wrong. For example, when PHAS was introduced I wanted to know how to get the best score in every category. Per the principles of QHWRA, PHAS was meant to be the tool that would allow HUD to recognize and reward the top performers. I wanted both the recognition and the reward.

I had easy access to the many formulas that would calculate my scores. Those were all published several times in the Federal Register. But to find the underlying performance for the scores, I had to work surprisingly hard. Finally, I called the Director of REAC who got me the answer, but only after some research herself. No one on the HUD staff knew the definition of excellence, and no one could tell me how to "win." There is something wrong with a system if every single player does not know, indeed does not have at their fingertips, the standards of excellence for a housing industry.

The story gets a little worse. My housing authority currently has a "substandard financial" rating based on our 2004 performance. In 2004, we refinanced several of our non-HUD properties that had balloon mortgages. When you refinance, the entire mortgage balance shows up in the current portion of the long-term debt. This is not unusual, but your balance sheet indicates that current assets are not sufficient to cover current liabilities. In a normal business environment, the activity would be footnoted, the risk understood and the refinance carried out. Instead, in the PHAS system, we received a score of 0 for the current ratio, losing 9 of 30 points, or just enough to drop us into a substandard category. In addition to the point of pride, as a substandard agency we do not compete well in grant applications and we lose bonus funds in the Capital Fund program. Can this be right?

Comprehensive Reviews

From time to time, and more times in my case because I am very close to my Field Office, HUD staff will come out to do a bumper-to-bumper review of my operations. I want to clarify that I think our Field Office should be a model for the rest of the country and my comments should not be seen as an indictment of good people carrying out instructions.

When the HUD field staff came to do a Comprehensive Review last month, much of their activity was redundant in most every instance, with the exception of the RIM review. They sat in the chairs still warm from our independent auditors and spent an entire week of their time (3 FTE) and our time (4 FTE) re-reviewing work just done by others. They checked files that our independent auditors had just checked; they reviewed financial statements that our auditors had just reviewed; they inspected units that REAC had just inspected. I am pleased to report that they were very impressed with our administration of the programs and found nothing substandard about our housing authority. While that assessment is nice, it is not necessary.

Additionally, HUD staff provides oversight of our non-HUD portfolio on the theory that our non-public housing activity might put our public housing at risk. The irony for me is that my public housing, which is on track to lose $649,000 in 2006, is the biggest risk I have and puts the rest of

my portfolio in measurable jeopardy. I suggest that HUD does not need to be reviewing non-HUD activity unless its "own" assets are performing or are encumbered in some way by non-HUD activity.

In lieu of this extensive regulation and oversight, I propose that we negotiate a performance contract with HUD that outlines reasonable expectations for the subsidy provided and clearly articulates how all stakeholders will be rewarded by good performance. This agreement could be developed within a Carver model of governance. The Carver model acknowledges the impossibility of an oversight body outlining everything that is permissible, and instead defines the things that are not permissible. That leaves the Executive to be as creative as s/he can with partnerships and local solutions to achieve the result that both HUD and communities want.

Moving to Work

BHP's 383 units of public housing make us the ninth largest provider of public housing in our region. Even as a comparatively large provider in the west, we do not have a demographic typical of the myth of public housing. Our public housing residents are elderly, disabled or working. Despite having income from work or benefits, ninety percent (90%) of our families have income below 30% AMI. Of the entire population, 65% are elderly or disabled; 39% are working families; and 1% receives TANF benefits.

Much of HUD regulation since, and including, QHWRA appears to assume that public housing residents would work, or work more, if housing policy forced the issue. We are not a Moving to Work (MTW) agency because we do not have a population that needs to move to work, yet we are an agency that would have been a great test site for deregulation. We need deregulation opportunities for housing authorities where moving to work is not the problem. We need deregulation for housing authorities that want to Move to Excellence. This is another example of how the good intention of Congress can get lost in the translation to HUD regulation.

MTW may be good for many agencies, and should be expanded to as many as 100 sites as NAHRO has suggested, but prescribing it for all would, similarly, I believe do a disservice to the goal of allowing housing authorities to shape their programs to community need. I mentioned that our inventory of 383 units makes us a medium-to-large provider in our region. By comparison, then, many of my neighboring housing authorities have very small programs and the thought of re-writing the program guidelines might be more than the typical one staff person can manage along with leasing, maintenance, rent collection, bookkeeping and compliance.

Asset Management

We are currently in the midst of an all-too-familiar pattern of HUD taking a very good idea and over-regulating and micromanaging it until it becomes a bad idea. HUD is actively implementing its vision for project-based accounting and management. The principles of asset management, including project-based accounting and management, are excellent. They are well-tested principles that come to us from the private sector and they are principles well-understood by my housing authority.

The implementation of asset management, however, is a classic example of HUD over-stepping legislative parameters and substituting a "one-size-fits-all" formula where a principle of local responsiveness and flexibility is not only essential but the cornerstone of asset management. Having converted my public housing to project-based accounting last year, I find that it provides the kind and quality of information I need to manage my operations and assets. However,

considering that most of the housing authorities in my region have fewer than 250 units and may well designate their small inventories of scattered sites into a single project, HUD could spend a lot of time and effort and nothing will have changed.

My objection concerns project-based management. The final rule says that it should be implemented to the maximum extent possible. That is as it should be. However, HUD is forcing the issue through its funding formulas and the definition of what can be attributed to the central office cost center and what costs can be allocated to sites. For example, my colleague in Santa Barbara will not be allowed to attribute costs for their central warehouse, which is across the street from their biggest public housing property, to that property because the warehouse is not "on the site." Can this be right? Can this be what we intended when we ask housing authorities to apply the best practices from the private sector to our own properties, as different as they are?

My housing authority experimented with project-based management nine years ago and learned a number of important lessons. One, we found that the technique did not fit our inventory very well, which is largely low density and scattered units. We also found it expensive to operate. And, we found that the extensive body of regulation required to manage public housing practically forces a centralized and specialized operation.

For example, at my two elderly/disabled sites (95 units and 50 units) we used to have resident managers who had full charge of the building according to the classic project-based management model. They were teamed with a maintenance staff and together they leased and maintained the building. We now know that the kind of person that you need who can market the units and manage a community of high-need, multi-generational residents is not the same person that can wade through the shoebox of receipts to accurately calculate rent and determine annual eligibility. We also know that, with the continual reduction of operating subsidy, we could not afford to provide on-site staff at this level. Now, instead of an on-site manager managing 95 units, our subsidy (which is scheduled to be reduced to 81 cents on the dollar in FY07) requires a single staff person to manage 145 units.[2] We have pulled our staff off site and now have a central team approach in which one person does all of the eligibility, admissions and recertification, and one person leases the two buildings.

HUD will not preclude me from managing as I deem appropriate. However, I may be considered non-compliant with asset management and not eligible for an asset management fee. Or, too many of my costs will have to be assigned to the central office, an activity for which the costs are capped at the sum of a management fee, an asset management fee, and a bookkeeping fee. For a deregulated environment, this is an excessive dose of prescription.

I have to wonder what will be served by an insistence that there is only one way to effectively manage property. We have to remember that this is the same HUD that once insisted on high-density housing in order to gain maximum land value. We feel fortunate in Boulder to have had the ability to reject HUD's opinion and build our public housing according to the values and land use patterns of our community. HUD should promote the principles and best practices of the industry, not insist that project-based management is the right tool for everyone.

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[2] Boulder is one of the housing authorities, however, that is scheduled to be a "winner" in the new operating subsidy. We have historically been so under-funded that our subsidy will increase by 181%, and even still will leave us with a net loss from operations.

Testimony of Betsey Martens
May 10, 2006

Recognition of the Service Needs of our Residents

Our industry, and our housing authority, has been engaged in a decades-old debate about whether we are property managers or social service providers. I suggest that there is no need for debate because the two are inextricably linked. In Boulder, I cannot be a successful manager of property if I cannot provide the services residents need to live independently and with dignity, to remain lease compliant, to take good care of the property, to be good neighbors and to gain a measure of economic- or self-sufficiency. We have a well-articulated vision in Boulder for resident services which includes three key ingredients: ***live, learn, and earn***.

The "live" component is focused on property well-being and asset protection. We work with residents in order to:

- Minimize accidental and willful damage in order to reduce maintenance costs and excessive wear and tear on units
- Encourage/enforce lease compliance
- Enhance security
- Maximize resident involvement
- Create healthy communities and organize activities for youth, teens and adults

Our greatest challenge relates to a resident's ability to "survive" in the housing to which they have gained access. This is the most emergent category in that, frequently, residents are not exhibiting the skills required to live peacefully and productively in a community setting.

The "learn" component focuses on individual well-being and self-sufficiency. The services typically include job training, childcare and transportation, for which we use partner agencies to deliver the services. BHP rarely takes on the role of direct service provider.

The "earn" component is closely tied to the concepts above. This strategy, however, is less concerned with individual well-being and more concerned with increasing incomes, which moves people through our units more quickly. This component is an important part of our supply strategy.

Sadly, I believe that HUD has lost its way with respect to this holistic view of our housing mission. It is essential that we care as much about quality of life for our residents as we do about the quality of our assets. There is a lot of talk about meeting resident needs, but I was among hundreds of housing authorities who lost Public Housing Drug Elimination funding and had to shut down the effective programs that were implementing the Live, Learn and Earn strategy. In the last two years I have lost 100% of my operating funding that provides services to our residents. Our service coordinator was re-assigned to the leasing department where she does what she can to help property managers who have had to pick up the slack. The Director of Resident Services is now the Director of Resource Development, where she is no longer focused on resident well-being but housing authority well-being, and her job is to raise money for operations, or save money through energy conservation. This is a good business decision. But, does it best serve the needs of our citizens?

In Boulder, people find their way to public housing for a variety of reasons. Most, but not all, are economic. For some, especially those who have been chronically homeless, public housing is the victory at the end of transitional housing. For others, public housing is their last stop in life. For many families, it is a temporary stopping place while they gather skill and money to move on. For one of our residents, Joe, it was a life saver.

Testimony of Betsey Martens
May 10, 2006

On the second day of his residency we found Joe naked in the window of his fourth floor apartment. Addicted to inhalants, Joe's grasp of reality was fleeting. In the first month of tenancy we learned that Joe was a danger to himself and his neighbors. We discovered that he had many unauthorized guests with whom he shared his addiction. His elderly neighbors in his high-rise building were terrified of Joe and his friends. Joe was completely invested in his lifestyle and had no interest in changing his behavior. My resident services staff coordinated a response and an intervention involving the police, the Adult Protection Team, drug rehabilitation experts and the Mental Health Center. Today, Joe is chemical-free and a model tenant.

Joe was lucky, and so was the community. His story could have ended with homelessness and significant expense to the emergency service/homeless infrastructure. We know that keeping people housed is the most economical option and the best outcome for everyone. We have found in Boulder that many of our resident needs, particularly those of elderly and disabled residents, can be met if we can make the small investment in service coordination to link residents with the extensive network of services available in our community.

A no-cost change that would help us immediately would be to return to the original definition of an elderly person. Our experience with mixing elderly people and young people with disabilities in high-density housing is not positive. More than anything, it is a problem of generations. I know very few 80-year-old women who appreciate the sound of rock music wafting through their bedroom wall.

In order to provide public housing to the most vulnerable citizens in my community, resident services must be considered an integral part of the program and a fundamental cost of doing business.

We provide ten apartments for homeless individuals at one of our newest developments. These street-worn men and women, who also suffer from severe and persistent mental illness, are not who we typically consider being ideal neighbors, yet they are thriving in Boulder's newest, and most acclaimed, Holiday neighborhood. They are doing exceptionally well in their housing for a reason that may surprise you. "They are trying to make their lives reflect the beauty of the housing you've given them," is the explanation given to me by their Mental Health Center case manager.

In order to manage public housing today, I need to be able to reproduce this story everywhere. Isn't that the goal of housing policy? To build good—no, to build *great*—housing that will transform peoples' lives.

Restructure the Underlying Finance

Most of the problems I have addressed so far could be solved by changing the way funds flow to public housing. Managing public housing today is like driving a car without an engine. Public housing looks and feels like real estate, but it is missing the central drive train required for successful asset management: predictable, sustainable rental income. All of real estate operates on the principle of an economic rent. An economic rent is rent sufficient to meet expenses and plan for the future needs of properties in order to protect the asset.

Instead, we have an operating system that is upside down. We have rent that is based on the family's income and a subsidy based loosely on the cost to operate. Right side up, we would

convert the system so that rental income is relative to the cost to operate and maintain the property, and subsidy would be relative to the family's ability to pay the rent. This is the system that we see in the voucher program. In public housing, the current operating subsidy directs funds to us in a series of largely inflexible streams: one for operating, one for capital and, when we're very lucky, one for resident services. Besides the fact that, in our case, all of the streams of funding are insufficient to meet the asset needs in my inventory, it makes for an unpredictable and unwieldy system to manage.

What I need, instead, is an economic rent from HUD in which I will be guaranteed the funds required for basic operating costs, including resident services, and capital needs by making an annual contribution to a reserve for replacement and/or financing capital improvements through debt. This is the model I use to manage everything else in my portfolio. The degree of difficulty, while still relatively high compared to the private market, is a fraction of the difficulty in managing public housing currently.

In this scenario, common to every housing type except public housing, rent is the economic engine. At my option, the rent would be at comparable market rent for my area, or determined on a budget basis taking into account the need to provide for sufficient replacement reserves to replace capital funding. A HAP contract would provide subsidy for as many people as possible, after which I could rent units to families who can pay the economic rent without subsidy. HUD would monitor my performance from bottom line indicators, and my neighborhood banker who has invested in my capital financing needs would provide closer and more rigorous oversight than HUD ever could.

This scenario accomplishes several things. It allows HUD to sub-contract its very important job of risk management and asset performance monitoring down to the local level where it belongs. It creates a relationship between subsidy and the number of families we can house (currently when subsidy is reduced, we maintain our obligation to house the total number of families and have a greater challenge in communicating the impact to Congress). The economic rent would reflect the local market and the value of the product a family receives. It should allow for resident services to be recognized as a standard operating cost.

If we do not have the appetite for a new program, we can and should give serious consideration to the idea of converting public housing to a product similar to a project-based property in which an economic rent plus subsidy model would assure that housing authorities can keep the promise to their community that they will meet the shelter needs of all of their citizens, not just the ones who are the richer poor. In addition, rent fairness and simplicity would be a good unto its own. However, I urge Congress to take a comprehensive look at the entire public housing program.

One of the many advantages of being associated with NAHRO is that it provides me with an opportunity to work with some of the brightest, most committed and most innovative professionals across the country in housing today. In doing so recently, I am both concerned and distressed to report that, not unlike my own situation in Boulder, many of my colleagues are seeking exit strategies and ways to responsibly dispose of their public housing inventories. They have not given up or lost sight of the mission; absolutely not! Instead, many of them find themselves in the same position I have tried to document here today. Absent change and reasoned responses to the five imperatives I have addressed, many of my colleagues will, of their own volition or out of necessity, look for new and different ways to meet local needs.

I underscore that, for many if not most, this will be a matter of necessity unless we do what we must do to correct our course. I would like to make clear that this public housing inventory for the most part serves those at 30% of median and below. Absent a viable public housing program, these same families are at risk. My desire for change should not be interpreted as a retreat from this equally important imperative; to the contrary, we must continue to house families of low- and very-low-income in a responsible manner not only in Boulder but also around the country. This means that I must have the tools and the programmatic latitude and the ultimate flexibility to do so.

I have talked today about five essential attributes of a successful public housing program and the situation in which I find myself in Boulder. It is imperative that we create responsible change. We have in many ways reached a tipping point for public housing and this requires us to take bold steps now or run the risk of losing that which for millions must not be lost! Now is the time to put our heads together to reexamine the current program and, where necessary, initiate changes, or at a minimum look to launch pilot programs to test the effectiveness and utility of various scenarios.

Under the current programmatic rubric, I and many of my colleagues around the country are, or soon will be, looking for an exit strategy. More alarming than this is the simple fact that given the course of current events, many authorities with more than a handful of public housing units in their portfolios may be looking at their actual ability to stay in business. I sincerely believe that a widespread disposition of public housing is avoidable. I am hopeful that the outcome of this hearing and others that you will hold will lead us to a responsible course of action. In fact, I believe we can sustain that which I said at the outset is an irreplaceable asset.

I offer all that my staff and colleagues in Boulder and in the Rocky Mountain states can bring to the discussion as it proceeds, as indeed it must. NAHRO also stands ready and looks forward to working with you as you move forward. I would be happy at this point to answer any questions you may have and thank you again for the opportunity to appear today.

Mr. TURNER. Curt.

STATEMENT OF CURT HIEBERT, EXECUTIVE DIRECTOR, KEENE, NH, HOUSING AUTHORITY

Mr. HIEBERT. Thank you, Mr. Chairman, Mr. Ranking Member. I appreciate very much the opportunity to talk to you today. And I'm very humbled and flattered by Senator Sununu's introduction; I'm not sure if my family and friends would recognize who he was talking about.

I won't take a lot of time telling you again who the Keene Housing Authority is, but we are one of the original 24 Moving to Work demonstrationsites.

And Representative Clay brought up a very valid point earlier when he was talking about a concern about MTW. Our entire MTW program was developed and consisted with a concentration on the need—the individual needs of families and elderly, and continues to do so. That's what MTW has enabled us to do.

Since 1999, this program resulted in significant positive changes in not only our ability to administer our Federal housing programs, but also has dramatically changed the ability of our residents and Section 8 participants to stabilize their housing situations and achieve self-sufficiency.

Mr. Chairman, small housing authorities are struggling to keep their heads above the sea of paper, an over proscriptive process developed by the Department. Over 2,000 of the 3,300 housing authorities across the country have less than 250 units of public housing. I don't presume to speak for all of them, but the KHA faces the same issues that they do, and I would like to share some of those issues with you.

The KHA is one of the smallest housing authorities to participate in the MTW program, and our statistics and numbers may be insignificant compared to some of the other figures you've heard today, but I can't emphasize enough that to a smaller community or a smaller housing authority, even the loss of a seemingly small amount of funding or an addition of significant and unnecessary administrative burden can result in a proportionately large reduction in their ability to serve their residents and program participants.

The vast majority of housing authorities are well-run, administratively lean, and struggling under reduced funding accompanied by increased micromanagement, and—the phrase you've heard again and again—one-size-fits-all regulations designed to deal with extremely large cities or housing authorities that have problems not applicable to those smaller communities or housing authorities.

QHWRA itself was designed to deal with a number of different issues, and, to quote one of those issues, deregulating and decontrolling public housing authorities, thereby enabling them to perform as property and asset managers, HUD's response to this is the currently proposed project-based accounting and property-based management regulations. Although touted as being formulated with industry input, I think the more accurate statement would be that it was formulated over industry concerns and objections. This incredibly convoluted and complex process of counting instead of

merely applying currently acceptable CAP accounting principles sets up a massive prescriptive and proscriptive process.

Even though smaller housing authorities will have some simpler procedures than larger ones, the entire process will burden smaller housing authorities and complicate larger ones. The end result is the exact opposite of deregulating and decontrolling.

Project-based management is supported by housing authorities, but if its purpose is to identify and dispose of properties that don't sustain themselves, the end result of reduced operating and capital funding by HUD will result in a dramatic reduction of the extremely valuable resource that the public housing industry represents. For instance, it doesn't take the proverbial rocket scientist to understand that it takes more time and effort and money to manage and maintain and capitalize family housing than it does to manage housing by the elderly. Recommendation: Reduce the micromanagement of the currently proposed PBA/PBM regulations and allow the congressionally mandated housing subsidy recalculation to go forward as approved in the negotiated rulemaking, and allow housing authorities to operate under GAAP principles like virtually every other nonprofit in the country.

Another object of QHWRA was creating incentives and economic opportunities for residents of the dwelling units assisted by public housing agencies to work, become self-sufficient and transition out of public housing.

The current rent system for public housing in Section 8 has resulted in a system that encourages deceit; confuses applicants, tenants, housing authority staffs, policymakers and the general public. There are significantly different rents for virtually identical housing. The system punishes work, and the system, not surprisingly, results in errors.

The recommendation: The Keene Housing Authority and several MTW housing authorities have developed effective alternative rent structures that preserve affordability, encourage self-sufficiency, provide a safety net for those that have circumstances beyond their control, and increase housing choice. In 1999, 46 percent of our families were working full time; now 65 percent are. Since 1999, average family income has increased by 30 percent.

My final recommendation: To conclude, I believe that HUD has lost its compass in following the directive of QHWRA to develop policy implementation and deregulate and decontrol housing authorities. The Department has become increasingly directive and intrusive in the daily operation of local agencies, even attempting to influence or control uses of non-HUD and non-Federal resources. Please expand the Moving to Work program, reform assisted rent structure, and ensure that housing programs have adequate and predictable resources.

Thank you very much, Mr. Chairman.

Mr. TURNER. Thank you very much.

[The prepared statement of Mr. Hiebert follows:]

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Testimony of P. Curtis Hiebert

for the

Subcommittee on Federalism and the Census,

House Committee on Government Reform

May 10, 2006

Mr. Chairman and Subcommittee members, thank you for the opportunity to testify. I am Curt Hiebert from the Keene, NH Housing Authority. I have been the Executive Director and CEO of the Keene Housing Authority for the last 19 years, and have been in executive leadership positions of other small housing authorities for the last 25 years. The KHA is a small housing authority that is typical of the vast majority of housing authorities across the country, and I welcome this opportunity to take part in this oversight hearing of issues that negatively affect the operations and in some cases the very existence of small housing authorities.

The KHA operates 226 units of Public Housing, and administers over 400 units of Section 8 Tenant based assistance. In addition, we own or manage 4 LIHTC (Low Income Housing Tax Credits) developments, conventionally financed housing, administer the CDBG (Community Development Block Grant) program for the City of Keene, and provide coordination of services for our families and elderly. The KHA is also one of the original 24 Moving to Work Demonstration sites (MTW program), and our entire Public Housing and Section 8 programs are integrated into the MTW program. Since 1999, this program has resulted in significant positive changes in not only our ability to administer our federal housing programs, but has also dramatically changed the ability of our residents and Section 8 participants to stabilize their housing situations and achieve self sufficiency.

Approximately 2500 of the over 3300 Housing Authorities across the country have less than 250 units of Public Housing. I do not presume to speak for all of them, but the KHA faces the same issues they do, and I would like to share some of those issues with you. The KHA is one of the smallest Housing Authorities to participate in the MTW program, and our statistics and numbers may be insignificant compared to some of other figures you have heard or will hear from other Housing Authorities containing many more units or from much larger communities. I cannot emphasize enough, however, that to a smaller community or a smaller Housing Authority, the loss of a seemingly small amount of funding or the addition of significant and unnecessary administrative burden can result in a proportionately large reduction in their ability to serve their residents and program participants. The vast majority of Housing Authorities, and smaller ones in particular, are well run, administratively lean, and struggling under reduced funding accompanied by increased micromanagement and "one size fits all" regulations designed to deal with extremely large cities or Housing Authorities that have problems not applicable to those smaller communities or Housing Authorities.

The Quality Housing and Work Responsibility Act of 1998 (QHWRA) overhauled the Public Housing and Section 8 programs, and consisted of many individual initiatives. In earlier testimony by Rod Solomon, this Committee heard that the QHWRA had four basic objectives:

1. Improving or replacing the public housing stock
2. Promoting self-sufficiency and poverty deconcentration
3. Improving Public Housing management

4. Improving the Section 8 Voucher program.

The point was also made by Mr. Solomon that even after 7 years, and even though regulations are not in place with respect to significant aspects of QHWRA, that there has been a huge positive difference in Public Housing and Section 8 management, despite the continuation of negative public and even institutional perception.

However there continue to be several instances of serious concern for the industry regarding the need for simplifying and making federal housing programs more efficient and effective:

Part of QHWRA's stated purpose and strategies were:

- *"deregulating and decontrolling public housing agencies, thereby enabling them to perform as property and asset managers"*
    - HUD's response to this purpose is the currently proposed Project Based Accounting and Property Based Management regulations. Although touted as being "formulated with industry input" the more accurate statement would be that it was "formulated over industry concerns and objections". This incredibly convoluted and complex process of accounting, instead of merely applying currently acceptable GAAP accounting principles, sets up a massive prescriptive and proscriptive process. Even though smaller housing authorities have simpler procedures than larger ones, the entire process will burden smaller housing authorities and complicate larger ones. The end result is the exact opposite of "deregulating and decontrolling". Project based management is supported by housing authorities, but if its purpose is to identify and dispose of properties that do not sustain themselves, the end result of reduced operating and capital funding by HUD will result in a dramatic reduction of the extremely valuable resource that the Public Housing industry represents. It does not take the proverbial rocket scientist to understand that, for instance, it takes more time and effort to manage, maintain, and capitalize family housing than it does to manage housing occupied by the elderly.
    - RECOMMENDATION: Reduce the micromanagement of the currently proposed PBA/PBM regulations, allow the Congressionally mandated Housing Subsidy recalculation go forward as approved in the negotiated rule making, and allow HA's to operate under GAAP principles like virtually every other non profit in the country.
- *"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..."*
    - The KHA has been fortunate in the past 10 years and has benefited by the diversification of our funding base to include other sources of revenue than just Public Housing and Section 8. A number of Moving to Work contracts allow the flexibility of combining funding to maximize their efficiency in local areas and programs. Most smaller HA's have not had the same opportunities or ability to do either of these, or are now looking to explore innovative and creative means of carrying out their local missions. HUD must realize, and doesn't seem to, that

HA's are not HUD employees, but have powers and existence separate from their HUD funded programs. Despite the stated HUD policy of encouraging leveraging of private funds, the HUD IG's office has been very vocal and active in criticizing the practice and even the theory of such activity, citing the "endangering of Public Housing assets". There is now a draft HUD directive that seems to echo those concerns.

- RECOMMENDATION: HUD should encourage, rather than discourage carefully thought out and reasonable efforts to diversify and fund housing management and development. Congress should legislate if necessary permission for local HA's to do so.

- *"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.*
  - The current rent system for Public Housing and Section 8 has resulted in a system that encourages deceit, confuses applicants, tenants, housing authority staffs, policy makers and the general public. There are significantly different rents for virtually identical housing, the system punishes work, and the system not surprisingly results in errors.
  - HUD forms and tracking insist upon knowing every single transaction involving any member of the approximately 3.2 million participating households. An increase or decrease of income, change in family composition, child care expenses, medical expenses, etc must all be reported, filled out on a 14 page form, verification obtained, and transmission to HUD files completed. The question should be asked whether this level of information is needed.
  - RECOMMENDATION: The KHA and several other MTW housing authorities have developed effective alternative rent structures that preserve affordability, encourage self-sufficiency, provide a safety net for those that have circumstances beyond their control or fixed incomes, and increase housing choice among its participants. Since 1999 when the KHA began its program, there have been a number of changes in our programs and their effects:
    - In 1999, 46% of our families were working full time, now there are 65% working full time
    - Since 1999, average family income has increased by almost 30%
    - The KHA has been able to issue more Section 8 subsidies than our funding would have allowed under existing Section 8 Housing Choice Voucher regulations.

FINAL RECOMMENDATION:

To conclude, I believe that HUD has lost its compass in following the directive of QHWRA to devolve policy implementation and deregulate and decontrol HA's as they manage public housing, Section 8 and other assisted housing initiatives. The department has become increasingly directive and intrusive in the daily operation of local agencies, even attempting to influence or control uses of

non-HUD and non-federal resources. Three steps available to the Congress to encourage HUD to return to the path laid out by QHWRA are:

1) to expand the Moving to Work initiative and make it permanent, and support the Small Housing Authority Paperwork Reduction Act
2) to reform the assisted housing rent structure and
3) to assure that assisted housing programs have adequate and predictable resources that are fairly and responsively distributed.

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Thank you again for this opportunity to share my views, and I would be glad to supply further discussion or materials if there are any questions.

BACKGROUND AND SUPPORTING INFORMATION:

For over 70 years, local governments have established local housing authorities (HA's) pursuant to state enabling legislation to respond to specific, idiosyncratic local housing needs. HA's are still being formed by localities to address issues of housing availability, affordability and conditions. The Keene City Council established the Keene Housing Authority in 1967, and my agency was chartered with the mission to:

...directly or in collaboration with others, to provide and/or advocate for:

- *Decent, safe and affordable housing for individuals, families, elderly and disable persons of low to moderate income with the Monadnock region;*

And;

- *To provide and/or advocate for any and all services and programs that will assist in improving the social and economic welfare of such individuals and families.*

Over the years, the KHA has taken many different steps to accomplish goals in support of that mission that include the development of Public Housing, administration of the Section 8 Certificate and Voucher programs, development of conventional and LIHTC (Low Income Housing Tax Credits) housing for families and elderly, the development of a Congregate Housing Services Program for Public Housing, the provision of afterschool programs for at risk youth, and most importantly, the development and administration of our SPECTRUM Housing Program authorized by the Moving To Work Demonstration. Some of these efforts have been supported by federal policy and funding, some by the state, and some have been strictly local efforts. This diversity of approaches is one of the great strengths of the housing policy implementation network comprised of over 3,000 HA's nationally. No two of these institutions are identical. They are as diverse as the local housing issues they confront every day. In Keene, we face challenges of an extremely low vacancy rate or about 1% in rental housing, and high costs for those that are available in ways that are in some cases the same, but in a lot of cases differ from of our neighbors in New Hampshire and our colleagues throughout the United States.

FORMATION AND PURPOSE OF PUBLIC HOUSING AUTHORITIES:

Through the U.S. Department of Housing and Urban Development (HUD), the federal government has supported several initiatives that assist local agencies in pursing their missions and achieving their goals. The two primary initiatives used by many HA's are the Public Housing and the Housing Choice Voucher programs. However, although these programs are central to local efforts to improve housing availability, affordability, and condition, Public Housing Authorities were not established and maintained solely to act as implementation agents for federal housing policy.

Since HA's are political subdivisions of each of their states established at the request of local government to address local housing needs; uniform, "one size fits all" national standards fail to support the most effective attack on aggregated local housing problems. Unfortunately, the value of

a locally planned and developed approach to addressing diverse local housing needs (with the exception of the small Congressionally mandated MTW Demonstration Program) has been lost on HUD. Instead, the department has historically viewed HA's exclusively as its agents, and has endeavored to limit their discretion and constrain the variety of approaches HA's have used to address local needs. Local discretion and central control have tended to come in cycles, the most recent movement toward discretion starting in the late 80's, encouraged by the reinvention movement and an assessment by the National Academy of Public Administration, and culminating with adoption by the Congress of the Quality Housing and Work Responsibility Act of 1998. Unfortunately, since passage of QHWRA, HUD has appeared to be increasingly reluctant to implement elements of the Act that provide flexibility, and has moved to increasingly intrusive and directive involvement in the day-to-day operation of HA's. This intrusive intervention has reached beyond the initiatives supported by federal funding. HUD has undertaken to influence the availability and uses of local, state and other federal resources not under HUD's authority.

However, there remain, particularly for those 3000 small and medium sized Housing Authorities, a number of serious issues that not only intrude upon the successful attainment of those regulatory goals, but in some cases threaten the ability of the HA's to continue operating federal housing programs.

I want to highlight a few examples of HUD's increasingly intrusive and punitive approach to its HA partners. First, HA's have come under increasing scrutiny as HUD has initiated a number of new review processes. HA's welcome HUD review of their work, feedback concerning its quality, and suggestions for improvement. However, a recently initiated ongoing comprehensive compliance review process is burdensome and duplicative. Many HA's have received letters from HUD Field Offices providing them with two weeks notice of a comprehensive compliance review, and requiring them to prepare volumes of financial, policy and procedural information for the reviewers. The department certainly has the right and authority to review all of the material under review, but these requests cover material already in HUD's possession and impose preparation requirements unrelated to the conduct of the reviews. HA's have received no review protocols or standards.

Rental Integrity Monitoring (RIM) reviews are a component of the department's Rental Housing Income Integrity Program (RHIIP). Field Office staffs have conducted detailed reviews of rent calculations and related verifications of participant characteristics in an effort to improve the accuracy of subsidized housing rent calculations and the accuracy of subsidy payments. HA's support and contribute significant resources to furthering the goal of setting accurate rents, and together HUD and HA's have substantially reduced erroneous subsidy payments. However, HUD's implementation of RIM reviews has involved untrained and inexperienced reviewers who have produced findings requiring remediation by HA's that have had no bearing on the accuracy of rent calculations. Rather, many findings have involved technical compliance matters many of which are open to local HA discretionary decision making. For example, some RIM review findings involved miscalculation of participants' assets too small to effect rent calculations in any way. Other findings concerned the adequacy of verifications HA's received for matters unrelated to eligibility or rent calculation. All of these review findings required lengthy responses from the reviewed agencies, along with the preparation and implementation of a series of corrective actions satisfactory to the

department. During the RIM review process, HUD threatened to modify some agencies' Section 8 Management Assessment Program (SEMAP) scores retroactively, and some agencies voluntarily withdrew SEMAP certifications, lowering those scores unnecessarily, to reduce the administrative burdens resulting from RIM reviews.

Second, for over 15 years HUD has collected extensive information concerning public housing and Housing Choice Voucher program participants through the 50058 system. Form HUD – 50058 has become a 14-page form that agencies must submit electronically every time any participant's characteristics change and at least once each year. Although I have no doubt that HUD must gather basic information on program participants to fulfill its oversight responsibilities, I view some information gathered by the 50058 as redundant and irrelevant to HUD's responsibilities. A number of technical issues with HUD's web based 50058 submission system further complicates the information collection system, and as with its review processes, HUD has imposed punitive reporting standards and sanctions in the event that HA's are unable to successfully summit 95 percent of the 50058 data required of them. Sanctions can include loss of public housing and voucher funding.

Third, in its implementation of the recently revised Operating Fund eligibility formula, HUD's efforts to micromanage HA's daily operations have become oppressively burdensome. Every HA will be required to submit financial statements for each public housing property to HUD in the future, raising the number of financial statements HUD receives from approximately 3,000 to over 18,000. The department is preparing to implement a project based accounting and asset management in ways only remotely related to private sector models which include highly prescriptive accounting requirements and illegitimate restrictions on HA's' uses of their funds. For example, the department has proposed that HA's be prohibited from using state and local resources in otherwise allowable activities in their public housing operations.

These three examples of HUD's recent initiatives clearly fly in the face of the movement to deregulate, decentralize, decontrol, and devolve public housing operations over the last 10 years and embodied in the QHWRA in 1998.

As an alternative to HUD's recent approaches to its HA partners, I would like to propose consideration of three policy alternatives much more in keeping with the spirit of QHWRA than the department's recent behavior.

First, as the Keene Housing Authority is a Moving to Work agency, I am convinced that the MTW model offers the federal government a significant opportunity to free HA's to meet local housing needs in more responsive, effective, and efficient ways. MTW has allowed participating agencies to negotiate series of waivers of broad federal requirements in order to experiment with housing subsidy delivery in innovative and locally responsive ways. Each MTW agency prepares an Annual Plan for its assisted housing program with substantial local public input, including input from housing program participants and applicants, and each agency then reports to HUD on its progress in accomplishing its plans at the end of every year. A national assessment of MTW found that for MTW agencies that had modified their rent structures, there was no evidence of any adverse

impacts on participating families of those changes, and agencies have reported that their communities are very satisfied with outcomes of their changes. At the present time, only 32 HA's in the nation have been fortunate enough to be designated MTW agencies, and only 27 of those still participate in that program. This experiment deserves expansion and restructuring to permit rigorous assessments of local and national impacts. Because of its participation in MTW, the Keene Housing Authority has been able to expand housing opportunities, encourage participants to increase their incomes, and eliminate a significant amount of the administrative burden imposed under routine HUD administration.

Second, rent structures in assisted housing programs are complex and burdensome for HA's and for participants, they encourage deceit, are unfair to participants, penalize work and two-parent families. Currently, HUD defines the income on which HA's base rents using over 40 exclusions and deductions that complicate the policy and confuse everyone. The Public Housing Authorities Directors Association has proposed reform of the existing assisted housing rent regime and put forward two potential alternative systems to rectify the current problems. Reform of the rent structures in assisted housing would contribute significantly to achieving goals of deregulation and devolution put forward in QHWRA.

Finally, HA's rely on federal resources to support assisted housing programs that require reliable and stable funding. HUD uses formulas to determine the annual funding needs of the Operating Fund, the Capital Fund, and the Voucher Fund. However, the department has routinely neglected to request appropriations from the Congress to support these formula estimates of need. HUD must request and Congress must do its best to appropriate the resources required to maintain a national public housing stock of approximately 1.2 million apartments and an inventory of over 1.8 million Housing Choice Vouchers. Approximately half of this national inventory of deeply assisted housing shelters elderly and disabled households. In addition to funding adequacy, I urge that funding remain stable and predictable to offer HA's the opportunity to operate local programs optimally. Without both adequate and stable funding, HA's will tend to behave conservatively and unnecessarily constrain costs and housing assistance available in the communities they serve. With adequate appropriations, HUD must then fairly distribute resources to HA's in reasonable proportion to the needs of those agencies.

This Committee should support the Small Public Housing Authority Paperwork Reduction Act.

This Committee should support the permanence and expansion of the Moving to Work Program. The current Moving to Work Demonstration program has resulted almost universally in the expansion of opportunities for residents, efficient utilization of resources, and easing of administrative burdens for housing authorities. This program should be expanded to at least 250 housing authorities of all sizes to allow for better use of federal resources

Mr. TURNER. It is so motivational listening to all of you because you're such experts on something that is so important.

And Betsey, you were saying, I think, something that is such an important point that we hear in each of your testimony is the broad range of issues that you have to manage. You're not just a federally regulated agency, you're also a property management agency, you're also a social service agency. The different functions that you have to perform really require the level of talent that we see in front of us, and I want to thank you all for your dedication in what you do.

I have a few specific questions, and I have some global questions, some policy things. On the policy side, the types of discussions that you've heard nationally, where people were trying to make—recall judgments that I would think, in looking at the broad spectrum of the types of communities that you have, that we would probably be surprised at the unanimity that you might have in advice to us.

And then there are some things that each of you said in your testimony that I want to highlight. So you're going to find that there is not too great of an order to the types of things that we're trying to hit with you. And at the end, after Mr. Clay and I are finished with our questions—and I see Mrs. Foxx has joined us—we're also going to give you an opportunity to add anything else to the record that we might miss. So as we're going through this today, and if you take your notes as to things and points you want to make, if you have not gotten to them, we are going to give you some catch-all time to give us some closing comments and thoughts.

Greg, I'm going to begin first by putting you on the spot for just a moment, and that is, each of you are here today because of the success that you have had both in your organization and the success that you have brought to the table. That is not necessarily true of all public housing authorities, and it is not necessarily true of the history of all public housing authorities that you represent. And that is something that I think whenever we talk about the need for flexibility and the need for increased funding, that we have to be aware there is always the need for improvement in overall performance.

And so, Greg, I'm going to ask you a question, and I'm going to let you pick, but lead you a little bit. Greg, you took over a housing authority that you had to immediately take a significant attack to the budget, and that is something that requires not only diligence, but skill, because you have to find the right things in which to cut, but you also have the determination to be successful to conclude it.

I'd like you to highlight, if you would, just a couple of the things that you found that needed to be addressed in your housing authority that was not funding—not spending that would violate any rule or regulation, but that perhaps that doesn't—violates the primary goals and objectives of the organization. I'm going to give you one hint which you can highlight or not highlight, and that is, I'm more interested in the number of vehicles that you are faced with. But if you give us a couple of examples of things that you found that allowed you to be more efficient in tackling your budget.

Mr. JOHNSON. Thanks, Mr. Chairman.

When looking at the housing authority's budget, first thing you look at is your employees, because it's the largest cost that you

have, but also wanting to maintain a certain level of services to the residents is a high concern.

What I found—what we found in Dayton was that we had a lot of duplication of services, and a lot of dollars spent not toward our asset, a lot of dollars spent on marketing and things like that. So one of the things I did was to look at where people were placed and placed appropriate staff on the maintenance side where that would take better care of our asset, and cut down some of the marketing and things like that. So that really helped our budget in Dayton.

But even with doing that, in looking at our asset, we still need additional dollars to maintain or raise the level of our asset in Dayton to the level that I think we should be providing to our residents and clients. So coming from the finance department, that was relatively easy for me to identify some of the places where we can make a quick impact and put more dollars back into our asset.

Mr. TURNER. Terry, one of the things that you spoke to us about when we were in Chicago was that even with the increased opportunity to have requirements for the goal of economic transition for your residents, for moving residents to work and independence, you found instances where you might want to be more restrictive than what HUD had permitted, and you related to us some difficulty in getting approval for that. I was wondering if you might talk about that for a moment.

Mr. PETERSON. Thank you, Mr. Chairman.

Two things. One is in our mixed-income development sites—and we've got 10 underway now—we've got requirements such as working, drug testing, going to school, but you've got to be on a track to move toward self-sufficiency. But we're also going to rehab about 6,500 units of traditional public housing, mostly two to three-story walk-ups. And what we don't want to have, while we're expecting to have success, we're at 99 percent lease up at the mixed-income sites, we don't want to have at our rehab public housing units public housing residents moving back and not being on a track to move forward.

And so one of the things that we have requested from HUD is the ability to put in a 30-hour-per-month—it's called Economic Independence Program, which is you would have to be either going to school, working, engaged in something for 30 hours a month and moving toward self-sufficiency. I think the regulations only call for 8 hours per month. Well, at 8 hours per month, that's not going to get us very far in terms of working with residents. And what we've said is if you're not a senior, if you're not disabled, we think you should be engaged in some activity moving forward.

Because of the flexibility that we have, let's say, for example, if a resident wants to go back and complete their high school diploma and get a GED, the Chicago Housing Authority, we will assist in helping them pay for that. If a mother needs access to daycare, we will assist in paying for that.

So we feel that we're in a position to help our residents move forward, but with, you know, HUD telling us that the most that they can support us is 8 hours when we think 30 hours makes more sense, it hampers our ability to help our families to move forward toward self-sufficiency, especially in light of the fact that I've got about 30,000 individuals on the waiting list looking to get in public

housing. So we're trying to move families who are in traditional public housing into hopefully affordable and then hopefully home ownership, but we can't do it at 8 hours per month social services.

Mr. TURNER. Doug, in your testimony you mentioned that if you were in the Moving to Work program, that you estimated a $40 million fiscal impact to your deficit. Can you elaborate on that, please?

Mr. APPLE. Sure. Unlike other cities, again, we've actually taken some significant steps to control our spending in the past few years, and, really, I know everybody's had to do that in different ways. I'm sure Greg had similar challenges, though a very different size, but I think the challenges you hear are the same across the country.

We've actually reduced our head count of over 1,400 positions, a more than 10 percent reduction in out head count in the past 3 years, taken over $400 million in spending cumulatively out of our budget, and done that in a way that we believe we've still maintained the high quality of services by decentralizing functions, by putting in place technology that takes antiquated processes and allows us to do them more efficiently.

Without MTW we've only been able to take that so far. So we see that the opportunities that MTW provides is really allowing us to really make decisions locally to invest our resources strategically where we think it will have the best benefit for residents in our community.

So, for example, we have been able to rent—take savings out of our Section 8 program by creating new ways of doing business. We now, for example, have less staff to do inspections. We have almost over 85,000 vouchers in use today in New York City. We have 15 percent less inspectors to do that work because we implemented a couple of years ago a hand-held technology that allows inspectors to do the inspection onsite, to send the information, you know, through a telecommunications link back to our system, to generate the letter to the landlord immediately, and to then get the landlord to be able to do the repairs promptly. So it resulted in better service to landlords and to residents, and allows us to do the job more effectively.

The savings we generate from that program we can't reuse, we can't reinvest it back in vouchers or back into public housing. Something like MTW could allow us to do that. So when we looked at our programs, without increasing appropriations $1 to New York City, we believe that we can take $40 million of spending out of our various programs, actually doing it in ways that are smart and improve services, but that reinvest them back into either public housing or into new vouchers for families that are on our waiting lists, which in New York are over 250,000 families.

Mr. TURNER. Thank you for that.

Steve, in your testimony you talk about the goal of transition to independence. You even raised the issue of homeownership and the types of barriers that are faced when you look really at the type of intervention that is necessary for the residents in public housing. Could you people talk for a moment about—and Betsey had raised the issue of the social service function, the really inventory function that you do of the needs of the residents. Can you talk a moment

about the residents and their needs and how that can affect and impact a Moving to Work program and your success?

Mr. RUDMAN. Yes. Thanks, Mr. Chairman.

I think it is important to recognize that in our case about half of the residents that we serve are elderly and/or disabled, so the ability to actually move off the program may not be there. But we start with the notion of being a successful resident, being a resident in good standing where there is responsibility. But for those families whose working life is ahead of them, our organization is trying to triple the number of people that we currently serve to actually look at kind of a voluntary way where folks look at a horizon of about 5 years. And we think if we surround supportive services of child care and employment, educational kinds of opportunities locally, that housing is a necessary, but insufficient, ingredient to help a family achieve self-sufficiency.

You know, the FSS, or Family Self-Sufficiency program, that HUD offers does have an ability for folks on that we house in public housing or Section 8 to save money. And I think it is asset-building more than it is income that really helps folks move ahead in this society. So we're looking at ways to expand our asset-building approaches where residents can begin to save money and be able to buy a house, go to school, buy a car, and live more like mainstream Americans.

Mr. TURNER. Betsey, in your written testimony, you tell a fascinating story of a woman who was the victim of theft identity. And it's a great story because it tells of not just of the difficulty that she went through, but of the administrative burden that is placed upon you and the difficulty you have when something like this comes up in getting it resolved and how it fits into HUD's bureaucratic processes.

I was wondering if you might talk about that issue for a moment, and tell us, again, focusing on, you know, the burden that's placed upon you, but also what would you like to see in HUD where that burden could be lessened?

Ms. MARTENS. Thank you for that question, Mr. Chairman. For context for the audience, the chairman refers to a problem that I testified about regarding the EIV system. And I have to tell you that even as I walked out the door to fly here, my staff were following me with more examples of—the last one was a 79-year-old woman living in Boulder who is supposed to be working two jobs in a Mexican restaurant in Georgia. So I think the point is that when we have an income system where rent is based on—a system we put so much, so much pressure on the definition of income, and we are creating so many mechanisms around the integrity of rent that we have pretty much wrapped ourselves into paralysis on this.

I think the—well, we think that the EIV system holds some certain promise for being able to verify incomes. It's classic in the pattern of HUD rolling something out before it's field tested and ready. Because I mentioned to you in my testimony that we will now suffer sanctions in trying to correct the problems that we see coming up almost daily.

So the EIV system where we submit our transactions to HUD through the 58 system, if our income—so if our alleged Fisher woman has income solely from Social Security, we report that. But

HUD's system shows us that she has actually quite a good income, working at the fish factory in Portland, ME. So they will count that as a discrepancy. And now they will say, if you have more than 5 percent discrepancies, we'll hold your money back. A little bit worse than that is the problem for a 70-year-old woman to try to navigate that system.

I just can't imagine that this is what we anticipate when we're trying to create an equitable system for rent. The solution for me is to vastly simplify the system, and I advocate one of two things. We either take rent based on gross income, just a simple percentage of gross income; and for elderly, for those who qualify for medical deduction, we're just taking a straight standard deduction.

I also mentioned in my testimony, hopefully descriptively, what it takes for us to calculate rent. You know, we sit there with almost a year's worth of receipts for bananas, if someone has a potassium deficiency. We don't have the time or money to be doing that. We need to just take straight gross income or I think for families who work and can really—you know, are moving toward self-sufficiency. We really need to look hard at a flat rent system.

Mr. TURNER. Curt, you made a pretty stunning statement in your Section 8 description, and I've got the hearing testimony. I'm going to read it, and I'd like for you to elaborate on this because it's a pretty powerfully packed sentence that I know has lots of components to it. So I'd like for you just to talk about it a little bit more.

You say, "The current rent system for public housing and Section 8 has resulted in a system that encourages to cheat, confuses applicants, tenants, housing authority staff, policymakers and the general public."

I mean, those are some very strong conclusions of which I know that not many would disagree with you; but if you could provide us—for the purposes of when we're done, have a record—some of the types of things that you see that result from that or the big cause in that and ways in which it might be able to be remedied.

Mr. HIEBERT. I would be glad to, Mr. Chairman. In the written testimony I'm submitting as well, there's a chart that's been reduced down to about 18-by–24. It shows a flow chart similar to a computer that shows just how complicated it is to figure out somebody's rent.

These are some of the steps that it takes for not only a staff member but a resident to figure out their rent. It is—as a matter of fact, I think it's shorter than the IRS schedule in figuring out your income tax. That's one of the things. It's the complicated nature of it. Nobody can understand it. People—two families living in the same building——

Mr. TURNER. Can you please make certain we have a copy of that for the record?

Mr. HIEBERT. I would be glad to submit one for the record.

Mr. TURNER. Since the Senator's gone, I can probably say it's probably even shorter than passing legislation through the Senate.

Mr. HIEBERT. And probably as painful, Mr. Chairman.

The other thing that happens is that there's an inequality in rent. Two families with very similar gross incomes living in identical apartments right next to each other might have vastly different rents.

Also, when it's based on an income, the tendency is to want to not have your rent go higher. We punish working families. If they get a raise, if their spouse gets a raise, gets a job, we say, thank you very much, the rent is going up. Keene Housing Authority and some of the other MTW agencies have dealt with this by removing that as a factor. We determine eligibility to the programs, but we make the radical assumption that people do not want to live in public housing for the rest of their lives, and that assumption is rewarded. People want to move up and out, and it's beneficial financially to the housing authority. By the time they are ready to leave and graduate from our programs—that's a term we use and was used earlier today, when they graduate from the programs.

In the old system, when somebody is fortunate and works hard and gets a job and their rent goes up high enough, they leave. When something happens 6 months later and they don't have a support mechanism, where they lose the job or their boss turns into a jerk—and in my line of work, everybody's boss turns into a jerk after 6 months—they very often end up back on our waiting list.

Develop a system that doesn't do that; that encourages people to graduate and stay a productive member of our communities.

Mr. TURNER. Thank you very much.

Mr. Clay.

Mr. CLAY. Thank you very much, Mr. Chairman. I'd also like to thank the panel for your testimony today, and I certainly appreciate the service you give this Nation in your local communities.

Let me start with Mr. Apple. I realize that New York City desires to become another moving-to-work demonstration participant, but your operating budget deficits appear to pose significant threats to your long-term strategic goals. Are increases in financing the silver bullet solution, or are there also regulatory challenges that are just as menacing?

Mr. APPLE. Thank you, Congressman.

Yes, what I would say is that—and you heard it again and again today—that some of the regulatory challenges have enormous impact on our ability to provide quality service to residents, especially in the environment of diminished resources.

So the, as Betsey talked about, the EIV system, I mean, we have 181,000 families we serve in public housing and another 85,000 through Section 8, so over 265,000 families that we do that system for every year. It's a huge, huge complicated issue.

We think we've done it as well as anybody. We actually are well under the 5 percent standard that HUD sets for errors. We find some of the same problems that Betsey talked about; people working in Chicago and living in New York. Things like that happen all the time, but we've been able to manage it. But it comes at a real cost.

So, again, finding ways to use this flexibility, not to let housing authorities to, you know, do what they want because, as you can see, housing authorities make smart decisions in their cities.

And I also wanted to sort of touch upon something that the chairman said and I think Curt also mentioned is the one-size-fits-all approach really doesn't work. I mean, what works in New York City is obviously not going to be the same as it works in Boulder, CO, or Keene, NH. And the system today really doesn't recognize

that, and it's not fair to the Keenes and the Boulders; and it certainly isn't working for the New Yorks and, you know, Chicagos in that regard as well.

So I really would encourage you to think of ways to really create a system that reflects that diversity and the strength of public housing in this country and also create standards.

None of us are saying that we shouldn't be held accountable. None of us are saying that there shouldn't be a standard that we're held to by the Federal Government. We all embrace that. In fact, you can see we've all far exceeded that, but use reasonable standards. You know, Standard and Poor's rated us a Triple-A. There's a standard you can hold your hat to.

Mr. CLAY. So I keep hearing this recurring theme that tells me that HUD might be too bureaucratic. It may be too immersed in red tape. I don't want to get anybody on this panel in trouble, and it may be reflected by the way you answer, answering this inquiry. But is HUD too burdensome? Nobody speak.

OK. Let me ask these two here. OK. Betsey.

Ms. MARTENS. I know, I'm surprised we didn't fall all over each other to answer that question. Yes, yes, yes is the answer. I think here—let me tell you this, I think as the manager of, you know, a medium-sized public housing authority, the way I should start my day, I should turn on my computer, and I want to be able to see, what's my daily cash? What were my maintenance staff doing last night? What are the move-outs coming up in the next 30 days? That is how you manage an affordable housing program.

Instead, an environment with HUD, many of my colleagues—this doesn't include me—you have to go to the HUD homepage to see, what is the new notice? What has HUD said today? What are we supposed to be doing today? I'm constantly in conversation with my colleagues saying, haven't you read 2006–6? Oh, my gosh, no. I'm running a business.

Really need to be able to allow us to manage to the high standards that our local communities set for us, that our mission requires of us.

Mr. CLAY. That indicates a lack of communication on the part of HUD as well as a lack of a working relationship there. If you say you have to go to the Web page and see what the regulation of the day is, it's become too bureaucratic.

Curt, go ahead.

Mr. HIEBERT. I would echo that sentiment. The emphasis is on process rather than on results, coming from the department. We have, as Betsey was saying, the results we all want are very simple; and when you get a book of or notices of regulations that are an inch-and-a-half thick that you have to plow through and figure out on a simple process, it may become weekly to try to figure out. We are drowning in a sea of paper.

Mr. CLAY. Sounds like a maze. Thank you very much for that response.

One last question, Mr. Chairman; and this is for Mr. Peterson.

Mr. Peterson, are you certain that CHA will be able to maintain the same number of units available to beneficiaries even though capital funding and operating costs have been reduced in real dollar terms? Hasn't the real estate market in a city like Chicago be-

come prohibitively expensive for public housing expansion? And as an addendum to that, has your authority explored any possibilities for home ownership tenants once they graduate from your program?

Mr. PETERSON. Yes, sir.

Mr. Congressman, let me just take the second question first. At all of our mixed-income sites, we have set aside a percentage of the units for home ownership. We encourage our residents to move toward home ownership. We've actually used a voucher program by another means of working with public housing residents to move toward home ownership.

In terms of funding to continue the success that we've had in Chicago, one, not only do we need consistent funding, but we need adequate funding. There's nowhere where we can go to the private market and try to leverage private resources without knowing that we'll have adequate capital funding over a period of time to pay those dollars back.

The thing that I like about the MDW agreement is that it gives you flexibility both with capital funds as well as operating funds. So while we talk about flexibility, I think one of the points made by Betsey was the need for adequate funding.

You know, every year when you face cuts and both the capital funds and operating subsidy, it makes it difficult for us to be able to go out to the market. We were the first housing authority, I mentioned, to go out to the bond market, $291 million, Triple-A rating again from the rating agencies; but it was based upon the fact that we were able to project out what our capital allocation would be over a period of time to be able to pay back the debt service and to pay that back. So while we've had success in Chicago, we need to have adequate and consistent funding in order to be able to continue the momentum that we've had.

Mr. CLAY. I thank the panel for your response. I appreciate it very much. Thank you, Mr. Chairman. I yield back.

Mr. TURNER. Thank you. I, unfortunately, have an 11:30. I have a series of questions I want to ask each of you, and then I want to leave some time for you to be able to put on the record the thoughts that we've missed because, one, this has just been absolutely incredible. Your written testimony is phenomenal. The things you've raised today are great. They'll give us a tremendous amount of things to pursue further.

This is only our second hearing in oversight on the issue of public housing. There's a number of things that we need to pursue both in your testimony and in your experiences that can give us ways to hopefully effect change in this process.

So the next series of questions I'm going to ask you are somewhat short and quick. If there's one that you disagree with, and we need to embellish it, great, please do; but if it's one that you agree with, a yes would be sufficient.

I'm aware that some housing authorities are having difficulty with their senior housing, having the eligibility for disabled in senior housing; and the issue of drug dependency and alcohol dependency being declared a disability, affecting the tranquility, if you will, of senior housing. Let's go down the line and start with Greg. Are you having that difficulty?

Mr. JOHNSON. Thank you, Mr. Chairman. I definitely agree with that. I know in Dayton, very quickly, we get a lot of inquiries on, how did this young 25 or 35-year-old get in? My mom's been living here. She's 65, 75. Having parties on the weekends and things like that. So it's increasing the cost of maintaining and running senior housing, I know, in the Dayton market.

Mr. PETERSON. Mr. Chairman, it is also part of the testimony that I submitted in Chicago. One of the challenges that we have is that we finally got senior housing designated for seniors only, 62 or older; but it's only for 5 years; and then we've got to come back to HUD and reapply for it to become senior housing again. And we think it should be permanently put in place for individuals 62 and older.

Mr. TURNER. Your age and place comment in your testimony was very important.

Doug.

Mr. APPLE. We have, like Terry, been designated as a senior-only. So we have 43 developments that are for seniors. We have another over 9,000 units, 5 percent of our other housing stock, we designate specifically for the disabled. So it's really not an issue in that regard in New York.

Mr. TURNER. Good.

Mr. RUDMAN. Mr. Chairman, we have a mixed population in our high rise so we do not have elderly only. It is an increasing problem for the need for services to help people be successful. We are losing some of our elderly tenants to Section 202 and elderly only redevelopment.

It seems to me one of the things we're looking at is a population that's disabled who will become elderly, and so, more and more, we'll have elderly and disabled in some of our buildings.

Mr. TURNER. Betsey.

Ms. MARTENS. I was rather long-winded in my testimony. So let me be brief: Yes, yes, yes, it is a big problem for us.

Mr. HIEBERT. Yes, Mr. Chairman, we do. In a small housing authority, we don't have the luxury of designating a particular development and another development as elderly only. In a high rise, we have 42 percent of the residents under 62 with disabilities, and it is a problem. Though with the Moving to Work, what we've been able to do is provide some additional alternatives for people with disabilities, other than living with a number of elderly people, which they don't necessarily want to do, but it has been the only place that they were eligible for.

Mr. TURNER. Excellent. Well, I have just been given a note from my staff that we do have a reprieve. My vice chair will be joining you at 11:30. So we'll be able to continue this. I'll be able to finish my questions, and then we'll be able to get your comments and any additional questions that Mr. Clay might have also.

Economic segregation is an important issue. It's a lesson that we have learned that is not conducive to economic transitioning. I liken the issue many times to the small-town experience. You always see that people of a broader economic range in a small town tend to have greater successes, greater opportunities than those that are concentrated in small areas of poverty; but just the interaction, the ability to understand what is possible and what is nec-

essary for achievement, that interaction and the sense of a community and its improvement and condition I think can have a big impact.

Terry, you had mentioned that as one of the big issues that you were facing in looking at multi-economic housing opportunities. The counter to that, of course, is the stigma of the issue of gentrification, which has been incredibly frustrating for me as a topic when the subject is raised because I have never met a gentry in my life. And in addition to that, I know cities, being a former mayor, for cities to be successful, you have to have a mixed economic base and that you have to have mixed economic communities.

There's not a housing development or project we had undertaken that resulted in displacement of the populations that actually resulted in bringing investment to communities. That is a policy discussion that we all continue to battle, economic segregation versus the issue of gentrification.

Can you just speak from your experience for a moment about that issue? And your thoughts. We'll start at this end this time.

Curt.

Mr. HIEBERT. That is a very important issue, particularly in a small community. It's also a difficult one that either takes a week to answer or a short answer. Our rent structure encourages a broad range of incomes, and that used to be a policy in HUD housing and has gone by the wayside over the past number of years.

It's helpful to have modelling within a family development, to have families that are doing well, and others that are coming in that are maybe at one of the lowest points in their lives, for them to be able to see a success, rather than an entirely homogenous population. So it really makes sense.

We have not had a problem. We're not a HOPE VI agency. We've not had to destroy property. But to give you an idea of scale in the city of Keene, we have a development with 29 family units. My daughter came home from school, and she said, yeah, she met somebody that lived in the projects. This was in Keene with 29 units, and it was illuminating to me to see the way that it was labeled.

So we all struggle with this, but it comes back down to how you administer the programs. So if you have a rent structure and a program that can allow for a progression up and graduation down, I think it makes a difference in the long run.

Mr. TURNER. Thank you.

Betsey.

Ms. MARTENS. Thank you, Mr. Chairman. Yes, in Boulder, everything that we're trying to do is to mix incomes. We were fortunate from the beginning of our public housing investment where HUD insisted that we maximize the investment in land or we minimize the investment in land and maximize value. They insisted that our first 150 units be built all together on one side. We pushed back and pushed back and were able to have those reconfigured into three sites.

So from the very beginning of the public housing days, we drew a line in the sand and said, public housing must reflect both the fabric and patterns of the community, and it still needs to be today.

We don't do a service to families who are struggling to surround them by families who are also struggling. Public housing tends to be high density. Neighbors live very, very, very closely together. The problems flow out into the halls. We really need to create an exhale in the portfolio and spread it out.

I have long had a vision of being able to lift my public housing unit assistance and spread it out into the vast portfolio of non-HUD units that I have. So I would take a 50-unit family development and put 20 units over in my 126-unit market property, and I'd put 20 over here. I would spread it out. I think that as we all practiced non-HUD development, so we have quite a lot of real estate development experience. We were looking for in every setting a mix of incomes and uses and family experience so that the community can come together and create a fabric of strength and resilience.

Mr. RUDMAN. Mixed income communities make economic and social sense. Nothing speaks better to this than the HOPE VI program and examples throughout the country. I think what Betsey said, in many of our departments that are locally owned, our goal is to try to find ways to put a mix, of financing public housing Section 8 in developments with other folks who are in the work force. I think it makes good economic sense. Areas that are gentrifying, it enables people with lower incomes to stay, and I think it just is part of their future, mixed income.

Mr. TURNER. By the way, you can say that sentence also by saying, by those areas that are becoming more market rate.

Mr. RUDMAN. That's correct.

Mr. TURNER. I'm sorry. The word gentrification just really is one that I think has a stigma that diminishes some of the great hard work everybody's doing for economic transition. And I know it is one that is in all our lexicon, and we all know what we mean when we say it, but there are those who use that word, I think, to diminish the effectiveness of really what is economic capital investment that each of you are working toward.

Mr. APPLE. In New York, obviously, as you say, Chairman, really the same as in all cities across the country, that phenomenon is really ever-growing and ever-changing. In fact, neighborhoods like the South Bronx, the one that we all remember from 1977 where Howard Cosell talked about the Bronx burning during the World Series, you're now seeing new forms of home ownership, new development really right across the street from some of our largest, most dense public housing complexes in Harlem, where you're now seeing million-dollar brownstones being bought by folks that have lived in that community, moving into that community right next to some of our most important public housing developments. And we think what we're doing is really helping that to happen.

Obviously, the real estate market has a lot to do with it, but we have always encouraged working families in public housing in New York for the last decade. We've had a preference for working families. As I said earlier, almost 45 percent of our families are working. That is the highest percentage in almost 30 years in New York. So we think mixed income just is really organic in the way we do what we do in New York.

We also think that improving services and the quality of our public housing makes the community and the neighborhood more desirable. Not just services in terms of the day-to-day maintenance and our capital work to really make our properties work better and look better, but also the social services we provide, the job training we provide to our residents, the community centers that we have built and managed or managed in conjunction with community-based partners who do a wide variety of services, not just for our residents but for the entire community, and finally, really become mixed-income models.

Within our campuses, we have very many large-scale campuses. So we're now taking land, parking lots and available land and building new mixed-income models, using Section 8, using tax credits and even building the west side of Manhattan, in some of the most valuable property in the world, building work force housing within public housing complexes.

Mr. PETERSON. Mr. Chairman, as you had an opportunity to see in Chicago, one of the sites we went to, Roosevelt Square on the west side, on Friday where we had an opportunity to see in our mixed-income developments. You've got teachers. You've got firemen. You have police officers. You've got healthcare workers living next door to public housing residents. You've got children now being able to get up in the morning and seeing individuals getting up, are going to work.

We've been fortunate in Chicago that one of the biggest concerns when we started the plan for transformation is that we would sell off all of our land, that the community would regentrify, and there wouldn't be room for the poor. But we've entered into 99-year leases. The private market has embraced it.

The other thing that I think is important about a mixed-income community is how other stakeholders in Chicago have gotten involved. University of Chicago, you were at Oakwood Shores, over in the Kenwood. Oakwood community has now started a charter school that our residents now have access to, providing $5,000 forgivable grants to any of their employees who purchase a home at one of our mixed-income sites; the University of IIT, providing again $7,500 forgivable grants.

So we think, in Chicago, mixed-income communities are the way to go; and we've also done it in such a way that there's room for public housing residents as well as the working poor.

Mr. JOHNSON. Mr. Chairman, thank you.

In Dayton, there's the HOPE VI program. We've been able to provide affordable housing, home ownership out in the county area. Also acquiring and rehab public housing out in the county and also through our HOPE VI in the inner city to take down 212 public housing units and mix it in with home ownership, project-based Section 8 and project housing.

So in Dayton, the new word in Dayton with the new schools being built is a regional approach to making sure our community as a whole is taking part in the housing and in the services that we all need in our community. So we definitely champion and look for our new construction to be mixed with market-rate public housing and project-based Section 8.

Mr. TURNER. Excellent. Well, I'm going to reach to my vice chair, Representative Dent from Pennsylvania who will be taking over the remaining portions of the hearings.

I want to thank each of you for participating today and really for your expertise in doing what you do every day in changing people's lives. The importance of this is not only to the host, host communities, but also to the people that live there. You clearly all have a focus on that, and we'll find ways to help you for making sure that HUD is responsible, and we give you the rules and the regulations and capital funding that is necessary.

The issue of mixed income—I just want to let you know that, in Washington, DC, I personally live next to a public housing building. I'm living in a mid-rise that is an ownership mid-rise, and behind me is a market-rate mid-rise that is rental, all of which is doing wonderful and is helping change the community. So it certainly is a model. I know what you're implementing in your communities and is being implemented here, and every day when I'm in D.C., I can see it's success. I want to thank you, and I turn it over for additional questions to Mr. Clay.

Mr. CLAY. No questions at this time, Mr. Chairman. Perhaps your vice chair would like to have questions.

Mr. DENT [presiding]. For all the panelists, it's my understanding that part of the subsidy for your residence is for utilities. For example, energy costs. Can you explain this further to the subcommittee? And what are your requirements under current law in terms of paying for utilities? And I would just be curious to hear your comments and thoughts on this matter. Maybe if we can start from Mr. Johnson or whoever would like to go first.

Mr. JOHNSON. Our clients receive programs in their Section 8 and also public housing, a utility reimbursement. And the reimbursement is calculated based on your area, part of the country and bedroom size and style of the unit. Normally for one to—a three bedroom in Dayton, the resident receives a utility reimbursement of $149 off their rent so it's off of their rent. So the utility rising costs in utilities is affording housing authorities to take and sometimes give out more dollars, especially this last year with the rise in costs.

It's really put a big dent, I know, in Dayton's budget where we have no settle up at the end of the year where we used to have settle up on our utility costs; right now, at this time, it's really, really hurting our budgets.

Mr. DENT. Mr. Peterson.

Mr. PETERSON. Thank you, Mr. Chairman. I would also say, in Chicago, similar to the Dayton Housing Authority and probably across the board, the increase in rising utility costs, how it's impacted our budget, again, our utility allowances, based upon the unit size as well as the income. One of the things that we do, we don't give the utility allowance directly to the tenant anymore. We make direct payments to the light and the gas company on behalf of the tenant. And one of the reasons for that is that we discovered a lot of times tenants would find themselves with high utility bills. But again, I think what you're going to hear across the board is that with the rising cost of utility within the city of Chicago, it's

starting to become a challenge for us from a budget standpoint. But again, it's based on the resident income as well as the unit size.

Mr. DENT. Just a quick followup question. Do you get any support from Lockheed from any of your tenants?

Mr. PETERSON. Yes, we do. In fact, we've been very fortunate; the city of Chicago and Mayor Daley contributed an additional $5 million to the program. Our residents were at the front of the line. We've had great support from the State in terms of assisting our residents. So we get a lot of support from the City and the State as well in terms of assisting our residents through light, heat.

Mr. DENT. Do you do any weatherization programs on your own?

Mr. PETERSON. Yes. As a matter of fact, we've been able to go out, working with LaSalle Bank in terms of being able to borrow money for window replacement at some of our developments, paid back over a period of time; but we also work with the Department of Housing in terms of their weatherization programs as well.

One of the things that's going on in Chicago, our entire portfolio of 25,000 units are currently being rebuilt or rehabbed in the city of Chicago. We've completed—of that number—we've completed over 14,000 which would be 57 percent of the 25,000. So all of our new units are coming back with new windows, new furnaces, new heating systems and all of that.

Mr. DENT. Thank you. Mr. Apple.

Mr. APPLE. Thank you, Congressman. Yes, as similar in Dayton and Chicago, obviously energy costs are one of our biggest challenges this year. Single fastest growing cost, up over 70 percent this year compared to last year; 92 percent of our public housing units are not metered. So therefore, it's a direct cost to the housing authority.

What we've done is a couple things. One thing we've done is entered into partnership with the State power authority in New York to get low-cost power. So that helps to manage our costs. Also, a series of energy conservation programs we've done with them. For example, we were able to get 180,000 refrigerators, one for every apartment; and those refrigerators are energy efficient. We paid for them through energy savings of the discount program to the power authority, and we've been using performance energy contracts, which is something that HUD allows. And I would encourage them to, you know, consider expanding that to allow us to come up with new technologies to save money and then reinvest that savings back into the properties.

Mr. DENT. You do weatherization of your own properties as well?

Mr. APPLE. We do. We do. We do. Like Terry. Again, taking advantage of these performance contracts, allow us to put in high energy-efficient boilers and new windows and high energy-efficient lighting, using these contracts that allow you to repay over a 20-year period.

Mr. RUDMAN. Mr. Dent, I agree with the previous testimony. We are also using performance contracts, looking at weatherizing our properties. It's definitely a cost that's been increasing.

Ms. MARTENS. I would add that in the first quarter of our financial year, we are 94 percent over budget in gas spending. The good news is the snow has stopped falling in Colorado. We're out of the heating season. So that should even out a bit.

Mr. DENT. Fairly mild winter where I live this year.

Ms. MARTENS. I'm not proud to share this with you, but given 100 percent loss in funding for my housing authority for resident services, my resident services director is now the director of energy conservation. It has become such a big issue that we really need to direct our full-time attention to it. I think that we have to ask ourselves whether we serve the country appropriately when we redirect talent from serving our residents to someone who has to spend all their time now serving us.

Mr. HIEBERT. I was just going to brag that we got a $50,000 grant for weatherization for all of our units, but considering some of the numbers that were just bandied about here, I was humbled. But that does make quite a difference for a small housing authority, but it's a constant concern. My predecessor in the early 1970's converted 200 units of our public housing to electric heat. And many times I cursed him over the years, but I'm starting to thank him again as times turn.

Mr. DENT. Well, that's funny how that happens. You know, decisions you didn't like years ago seem like pretty smart ones today in some cases.

I'd like to talk a little about HOPE VI. And I'd like to hear your comments on that. And my congressional district, Allentown, PA, we were successful in receiving a $20 million HOPE VI grant to deal with one of the oldest housing developments, public housing developments in the Nation. And we're going through a massive transformation of that property to a more appropriate mix of housing. And we're excited about.

I would be curious to hear your comments on HOPE VI, the successes and problems you may have experienced; and maybe if we can start from right to left, maybe some of you don't have experience with HOPE VI.

Mr. HIEBERT. No experience, Mr. Chairman.

Ms. MARTENS. Likewise.

Mr. RUDMAN. Mr. Chairman, we at Portland, OR, have two HOPE VIs, and there's nothing like that in our 65-year history that's helped us position both the housing authority but more important the perceptions of taxpayers and neighbors about what public housing communities can be.

The notion of mixing incomes and looking at, you know, trying to mirror communities throughout the city I think is important so the isolation that exists socially and economically is something that doesn't make rational social sense.

So the HOPE VI program—maybe a HOPE VII program in my opinion—is extremely important for this industry because it's been very successful, in my opinion, around the country.

Mr. APPLE. Yes. We have two HOPE VI in New York. Obviously, given that our housing stock is really stable and we don't have the kind of distressed properties other cities had, it was a little different experience for us. In one case, we really used it to just modernize it and really vitalize a really aging property in a very isolated part of the city, Rockaway, Queens, which is really a peninsula where we had a very difficult time with crime issues. We had very few working families, and with the investment through HOPE VI, we now have moved over 600 new working families into the

complex; and really, it's starting to stir up broader economic development in that community entirely. So though it's different for us, I think that you'll hear from maybe Terry, I think the vitality of the program and the benefits are real.

The downside of the program I would say is the over-regulation by HUD. The mixed finance rules are very complicated. Developers in New York have told me that they won't do HOPE VI because it's not worth the effort. So I would pose that it's a program we want to save, but I think, like Steve said, I think you want a HOPE VII that really thinks more about how you make development work and how you have development partners.

Mr. DENT. Thank you, Mr. Apple.

Mr. Peterson.

Mr. PETERSON. Mr. Chairman. We've had great success in Chicago in terms of HOPE VI. We have about seven HOPE VIs. One of the things that I mentioned earlier in my testimony is that we've spent about $242 million and leveraged over $1 billion. We have 10 sites currently under construction either offsite or onsite in Chicago. The private market has taken to it. We've had great success in terms of involvement. We've been able to attract developers, not just locally but nationally to come into Chicago.

Michael's is an east coast developer who's doing one of our HOPE VI sites at Wells/Madden over 3,000 units they're going to bring back. So we've had great success, big supporter of HOPE VI. Think that it's needed. Think that it should be reauthorized and continued really in terms of what we're doing in Chicago.

Mr. JOHNSON. Mr. Chairman, thanks. Such a huge HOPE VI in Dayton, but we received a grant for $18.3 million which we were able to leverage to $50 million, and it's working wonderfully. I do agree that some of the regulations on it makes it a little costly, and it makes it a little confusing, but we definitely champion to continue to—the use of it.

Mr. DENT. Are you using all your HOPE VI dollars at one particular site, or are you spreading it around the city?

Mr. JOHNSON. Actually, in Dayton, we did a wonderful thing. We're actually taking some dollars, using them in the city and then some dollars, using them in the county. So, just for example, in the city, we took down 212 units. We brought back 80 units of public housing; 50 of the 80 units were for families, single family homes, public housing Section 8, and then 30 units was a senior high rise right in that same community, and then we're also doing a market rate, market rate housing new construction of 55 homes and just where the 212 units were. Then we leverage dollars from the county where we were able to give up to $70,000 of down payment assistance to families to move out into the county as part of the disbursement, and 35 families took advantage of that. We didn't have to give that much money. So we were able to help more families. It was started at 20. It grew to 35 families. And then we actually went out into the county and acquired existing properties and turned 70 of those units into public housing. It's worked great in Dayton, and we're in our last phase of it, so we definitely took the opportunity.

Mr. DENT. I may put people from the city of Allentown in contact with you. We're leveraging a $20 million grant and keeping it more or less on one site that had been troubled for many years.

The final question is really for all of you, is there anything else you'd like to establish here for the record before we adjourn the hearing? Anybody have any final comments? Mr. Hiebert.

Mr. HIEBERT. Yes, Mr. Chairman. I wanted to make a point about the Moving to Work and the development of it. In and of itself, the entire theory is to reflect local community conditions and be able to respond to them. It doesn't simply trade one ivory tower for another one. In other words, the MTW program in Keene was not developed in my office without public input. It is designed to reflect the local circumstances, what are the vacancy rates what is the employment situation, what are the demographics of the people you're serving, how does it serve the people on your waiting list. And I think that would be the point I would make that would hopefully sway some of the fears of MTW, if there's granted excess flexibility to housing authorities that there will suddenly be a huge influx of people thrown out on the streets. That's not our mission. That's not what we do. We house people; we don't throw people out. And I just wanted to get that on the record about the development of an MTW program.

Mr. DENT. Thank you.

Anyone else?

Ms. Martens.

Ms. MARTENS. Thank you. In closing, I would like to say that my view from the western States where public housing authorities tend to be smaller is that HUD is contracting the programs to the point where we really have to question the future economic sustainability of the system.

In my community, public housing represents a thin line between being housed and being homeless. And from my seat on our local homeless shelter board, I know exactly what it costs to house someone who is homeless, and I assure you that cost is much greater than investing in the current inventory that we have.

We have a $90 billion investment in public housing in this country. We really need to consider a preservation strategy for this asset, which is irreplaceable. I have suggested a pathway in my own testimony about how we get there. And I think it's quite possible if we reform rent, if we invest—allow us access to the capital markets, if we recognize that there are very serious significant service needs for our residents, and if we can start to restructure the underlying finance and let the funds flow the way it needs to, we can hang onto this asset and the deep affordability and the essential fundamental nature of housing in our communities. Thank you.

Mr. RUDMAN. Thank you, Mr. Chairman. I guess my final comment would be, I think the industry's really going through a sea of change. And I don't think most of us or any of us on this table want to be viewed as a HUD franchise. I think we are responsible stewards in our own local communities. We want to tailor our programs with our local marketplaces. If we're going to become asset managers for our community, we need to look at HUD as our major investor, but not the only investor. And I think that's really impor-

tant that we really try to change the dynamic and policy that really recognizes the vital roles housing authorities can play in the coming century.

Mr. DENT. Thank you.

Mr. Apple.

Mr. APPLE. Thank you, Congressman. I want to thank Chairman Turner also for this hearing and this opportunity. I think what you heard today really was very much the same, regardless of the size and the type of housing we operate; that local decisionmaking works; that in our local communities, we can best working with our local elected officials and our congressional Representatives best determine what's needed in our communities. That the HUD one-size-fits-all approach doesn't really work for anybody, but that standards matter and accountability matters, that there does need to be some standards, and there needs to be ways of holding us accountable, and I think that a new system, a system that MTW kind of has started is really what's needed to allow us to do what we do; that funding flexibility, that regulations but not over-regulation is where we need to go. And that we think that today was a great opportunity to talk about that, and we hope that you and the rest of your colleagues will really embrace that and really take that to the level that we all think we need to make it work in our communities.

Mr. DENT. Thank you.

Mr. APPLE. Thank you.

Mr. DENT. Mr. Peterson.

Mr. PETERSON. Mr. Chairman, let me just say too, in Chicago, and I would say debt owed to all my colleagues in Chicago, Mayor Richard M. Daley always talks about public housing is more than bricks and mortar. It's also about rebuilding lives, and our hope is to break the cycle of poverty. But in order to do it, I think local flexibility is so important. There's no way going into year 7 we would be at this point, over 57 percent of the 25,000 units completed the number of community stakeholders from universities to foundations of the private sector to civic community embracing this; if we didn't have local flexibility in terms of being able to design a program that breaks the cycle of poverty that allows residents to move forward, to get on their feet so that we don't create another generation of families trapped in public housing, isolated from the rest of the city.

Again, I want to just thank this committee for providing us the opportunity to talk about some of the issues that we deal with locally, and I want to say something that might be more of the exception than the norm, and that is that we've had a great working relationship with Secretary Jackson.

In Chicago there's no way we would have been able to accomplish this without his support. At the top he's been very supportive of Chicago and working with us and also I would be remiss if I didn't mention the fact that under his leadership and former Secretary, Mayor Martinez, both were very supportive of what we were trying to accomplish in Chicago. Thank you.

Mr. DENT. Thank you. We'll certainly share that with the administration. Thank you.

Mr. Johnson.

Mr. JOHNSON. Mr. Chairman, I'd like to say thank you, and thank you to Congressman Turner for holding this subcommittee hearing. I ditto what my colleagues have already said. I just wanted to say there are few programs that I want to just reiterate that I think are critical to the success of public housing in the future, which is: Jobs Plus, Moving to Work, and HOPE VI programs. Without programs like this, housing authorities would lose their flexibility and ability to be creative, to supply quality housing and services to our families. Thank you.

Mr. DENT. Well, I'd like to thank all of you for your testimony. We've heard from communities both large and small and mid-sized, and I really appreciate your comments. I think this has been very helpful. Your testimony today has been extremely helpful to the committee, and we will certainly take this all under advisement, and I'd also like to make clear to everyone that, should you have any additional comments or statements for the record, the committee will keep that open for an additional 2 weeks. So I just wanted you to be aware of that. So without any further comment from me, I'd like to adjourn this meeting, the Government Reform Subcommittee on federalism and the Census. Meeting adjourned.

[Whereupon, at 11:52 a.m., the subcommittee was adjourned.]

[The prepared statement of Hon. Charles W. Dent follows:]

Congressman Charles W. Dent
Pennsylvania – 15
Government Reform Committee
Subcommittee on Federalism and the Census
Opening statement: "Public Housing Management: Do the Public Housing Authorities have the Flexibility They Need to Meet the Changing Demands of the 21st Century?"

Thank you, Chairman Turner, for holding this important hearing on the state of public housing in order to assess the capacity of the program to meet the changing demands of 21st Century needs. 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.

As we know, in recent years, the Section 8 Housing Choice Voucher program has come under increasing criticism from the Administration and Congress for its cost and its complexity.

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. Furthermore, we must consider and evaluate the Administration's proposal of redefining the concept of a voucher, by instead providing funds that could be used for rental assistance, homeownership assistance, and other supportive services.

I look forward to the testimony of these knowledgeable witnesses and seek their insight 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.

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