

**STREAMLINING AND STRENGTHENING HUD'S
RENTAL HOUSING ASSISTANCE PROGRAMS**

HEARING
BEFORE THE
SUBCOMMITTEE ON
HOUSING, TRANSPORTATION, AND COMMUNITY
DEVELOPMENT
AND THE
COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
ONE HUNDRED TWELFTH CONGRESS
SECOND SESSION
ON
EXAMINING HUD'S RENTAL HOUSING ASSISTANCE PROGRAMS

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AUGUST 1 and DECEMBER 11, 2012
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**STREAMLINING AND STRENGTHENING HUD'S
RENTAL HOUSING ASSISTANCE PRO-
GRAMS—PART I**

WEDNESDAY, AUGUST 1, 2012

U.S. SENATE,
SUBCOMMITTEE ON HOUSING, TRANSPORTATION, AND
COMMUNITY DEVELOPMENT,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Subcommittee met at 10:02 a.m., in room SD-538, Dirksen Senate Office Building, Hon. Robert Menendez, Chairman of the Subcommittee, presiding.

OPENING STATEMENT OF CHAIRMAN ROBERT MENENDEZ

Chairman MENENDEZ. Good morning. This hearing of the Senate Banking Committee's Subcommittee on Housing, Transportation, and Community Development will examine opportunities to improve the Department of Housing and Urban Development's rental housing assistance programs, particularly the Section 8 and public housing programs.

Section 8 and public housing programs put a roof over the heads of a combined 3.5 million American families, from formerly homeless veterans of our Nation's armed forces to hard-working single parents with children to elderly and disabled families. Over the past several years, these programs have performed to high standards while operating under dire funding constraints, but we can clearly see the strain.

In March, HUD Secretary Shaun Donovan testified that 18 housing authorities had given up their voucher programs since January and two housing authorities had turned down the HUD-VASH vouchers to assist homeless veterans because they could not afford to administer these programs.

Meanwhile, for the better part of a decade now, Congress has been debating proposals to enact a package of changes to these rental assistance programs, changes which have the potential to improve outcomes for low-income families while saving the Federal Government money and easing the administrative and regulatory burden on housing authorities.

The names of the bills have changed from the Section 8 Voucher Reform Act to the Section 8 Savings Act and now the Affordable Housing and Self-Sufficiency Improvement Act, but many of the provisions have remained remarkably consistent and enjoy substantial bipartisan support.

Many of these provisions just make good sense. For example, it makes sense to recheck the incomes of participant families on fixed incomes less frequently since the incomes of these families are more stable. It makes sense to make families with high net assets ineligible for housing assistance through these programs. It makes sense to streamline housing inspections and to relieve housing authorities of the burden of inspecting housing units that have already passed inspection under another State or Federal program. And it makes sense to allow housing authorities to pay higher rental subsidies for families with disabilities if the higher rent is needed to enable the family to live in an accessible home. I believe my colleagues and I can agree on many of these commonsense provisions, and I look forward to highlighting these areas of consensus.

Changes to HUD's rental assistance programs have also been linked to proposals related to other HUD programs, including the Family Self-Sufficient Program, the Rental Assistance Demonstration, Moving to Work Demonstration, among others. Our discussion today will shed greater light on these important proposals and, in particular, contribute to the dialog around a balanced expansion of the Moving to Work Program that builds on the success of the current demonstration while implementing a rigorous evaluation system and protecting assisted families from policies imposing severe burdens.

HUD's rental assistance programs enable millions of low-income Americans to live in safe and affordable homes. It is critical that we make these programs more efficient and place them on a stable footing for the future so that they can remain available to the most vulnerable members of our society.

I look forward to hearing the witnesses' testimony on changes that would move us toward this goal by improving outcomes for residents, reducing program costs, and streamlining requirements for housing authorities.

Senator Reed, would you like to make an opening statement?

STATEMENT OF SENATOR JACK REED

Senator REED. Well, thank you very much, Mr. Chairman. I want to welcome the witnesses and particularly thank you for holding this very important hearing.

As today's hearing will explore, we are looking for ways to streamline and strengthen HUD's rental housing assistance programs, and I would like to focus my brief comments on a key approach to accomplish this goal, and that is the enhancement of the Family Self-Sufficiency Program.

Family Self-Sufficiency is an employment and saving incentive program for families that have Section 8 vouchers or live in public housing. This program provides at least two key tools for its participants: first, it provides access to the resources and training that helps participants pursue employment opportunities and other goals; and, second, it encourages FSS families to save money by establishing an escrow account for them. And upon graduation from the FSS program, the family can use these savings to pay for job-related expenses such as the purchase and maintenance of a car or for additional workforce training.

I will soon be introducing legislation to enhance the FSS Program as it exists today which will broaden the supportive services that can be provided to participants, including GED prep and financial literacy training, and extend the FSS Program to participants who live in privately owned properties with project-based assistance. And I would urge all my colleagues to look very closely at the bill, and hopefully they will be supportive.

Finally, I will continue to work to fund the National Housing Trust Fund, and I reiterate my willingness to work with all my colleagues to realize this goal.

One point I think I want to just emphasize is that there is something more that we have to do than simply provide shelter. You have to provide people the ability to move up and move forward, and the FSS Program does it. So without supportive services, I think we end up in the long run spending a lot more money and not giving people the chance to use their talents to move up and move out and move on. And that should be our goal just as much as providing basic shelter.

Thank you, Mr. Chairman.

Chairman MENENDEZ. Thank you, Senator.

Let us welcome all of our witnesses. As I introduce you, let me just say that your full testimony will be included in the record. We ask you to summarize your testimony in around 5 minutes or so, and then that will be followed by a question-and-answer period.

Let me introduce our panel. Keith Kinard is the executive director of the Newark Housing Authority in New Jersey since June 2006. That is the largest public housing authority in the State of New Jersey, managing over 11,000 public housing units and housing choice vouchers. It also serves as the redevelopment authority for the city, working in support of the revitalization of the city of Newark. Prior to that, Mr. Kinard was the executive director of the Pittsburgh Housing Authority, which participates in the Moving to Work Demonstration, so we look forward to hearing his insights on that. He is testifying today on behalf of the Council of Large Public Housing Authorities, of which he is a board member. Welcome, Keith. We look forward to your testimony.

Dianne Hovdestad is the deputy director of the Sioux Falls Housing and Redevelopment Commission in Sioux Falls, South Dakota. She is responsible for the day-to-day administration of programs that provide affordable housing to approximately 2,000 households, including 1,800 housing choice vouchers. She has over 35 years of experience—they must have taken you from the crib to do this work—working with HUD rental assistance programs and has served in various leadership positions with the National Association of Housing and Redevelopment Officials, including the vice president of the housing committee, and she testifies on their behalf today.

Howard Husock is vice president for policy research at the Manhattan Institute where he is also director of its Social Entrepreneurship Initiative, a contributing editor to *City Journal*, has written widely on housing and urban policy, has served as director of case studies in public policy and management at Harvard University's Kennedy School of Government, where he is also a fellow at

the Hauser Center for Nonprofit Organizations. We welcome you as well.

Will Fischer is a senior policy analyst at the Center on Budget and Policy Priorities. His work focuses on Federal low-income housing programs, including the Section 8 Voucher Program, public housing programs, the Low-Income Housing Tax Credit Program has been cited in numerous media publications, and we welcome him.

Linda Couch is the senior vice president for policy and research at the National Low Income Housing Coalition. In this role, Linda focuses on issues including public and assisted housing, appropriations, capitalization of the National Housing Trust Fund. She has previously worked at Leading Edge on affordable housing for low-income seniors. She also has a background in State Government affairs.

So we have a very talented set of panelists. With that, we are going to start with you, Mr. Kinard, and, again, about 5 minutes, and then we will move on to the rest of the panelists and have a good question-and-answer session.

STATEMENT OF KEITH KINARD, EXECUTIVE DIRECTOR, NEWARK HOUSING AUTHORITY, ON BEHALF OF THE COUNCIL OF LARGE PUBLIC HOUSING AUTHORITIES

Mr. KINARD. Good morning, Chairman Menendez, Senator Reed, and other Members of the Subcommittee. My name is Keith Kinard. I am the executive director of the Newark Housing Authority and a board member of the Council of Large Public Housing Authorities. CLPHA's 70 members serve over 1 million households, manage almost half the Nation's public housing stock, and administer nearly one-quarter of the Section 8 program.

With the proposed AHSSIA legislation, Congress has recognized the need for revision of the Housing Choice Voucher Program to allow agencies to operate more efficiently. There are several aspects of AHSSIA that would undoubtedly improve the Housing Choice Voucher Program. The first is allowing families with fixed incomes to recertify at least 3 years in lieu of the annual recertification requirement. Current HUD regulations require all assisted families to recertify annually. This creates a significant incessant administrative task. Of those 4,500 families on the program in Newark, nearly 40 percent, or 1,800, rely on fixed income to support their families. The provisions of AHSSIA that allow the reexamination to take place every 3 years would greatly reduce the costs associated with the current process.

The second improvement is curbing the volume of unplanned interim reexaminations performed at the participant's request. Our agency received approximately 180 requests for interim reexaminations last month alone, or 2,500 annually. New provisions in AHSSIA setting a 10-percent decline threshold and giving housing authorities discretion on whether to complete an interim recertification if the change in income occurs within 3 months preceding the annual recertification are a welcome option to housing authorities' avoiding duplicative work.

An additional positive recommendation is the allowance of biennial housing quality standard inspections. The Newark Housing

Authority must conduct a minimum of 4,500 annual HQS inspections per year. That equates to 87 per week and spending roughly \$160,000 annually. It is the Newark Housing Authority's position that through this reform effort, landlords should bear the cost for required second and third inspections that occur due to the failing condition of units.

The Rental Assistance Demonstration Program is a step in the right direction toward converting public housing rental portfolio. Public housing nationwide carries a \$26 billion capital backlog due to funding issues and an aging inventory. Newark Housing Authority alone has \$500 million in capital needs and receives just over \$16 million annually. This is a recipe for failure. RAD begins to offer a path to allow conversion and preservation through private investment in our public housing stock. The current House version of AHSSIA is strongly supported by CLPHA because it not clears up many aspects of the process, but it also authorizes appropriations of \$30 million annually over the next 5 years in order to supplement costs, evaluate the program, and provide much needed technical assistance to authorities and residents.

We do, however, believe that HUD should use to the maximum extent possible their waiver authority to address current limitations on contract rent setting, the cap on the number of PBV units, and also the 12-month choice mobility constraint.

Finally, we support the permanent expansion of the Moving to Work Program for any interested housing authorities. Currently 35 MTW agencies are managing a program that falls outside the bounds of the traditional models and are raising overall standards of housing services. Innovative programs dealing with rent simplification, preservation of expiring use properties, and funding of housing for the chronically homeless are just a few initiatives that were born out of the MTW Program. Having run both an MTW agency and a nontraditional non-MTW housing authority, I can attest to the major benefits that residents, the community, and the housing authorities alike realize in an MTW environment. In Newark, a non-MTW agency, we are consistently drawn to focus on HUD test protocols such as PHAS, SEMAP, PIC, and VMS submissions. This diverts attention away from families we serve and the outcomes we strive to achieve.

In my previous role as the executive director of the Pittsburgh Housing Authority, we utilized a broad range of MTW flexibility to address the more critical needs in our community. We began our days thinking about creating affordable housing within intensive supports, eliminating high-cost/low-benefit activities required by regulation, and focusing cash, regardless of its origin, on creating new affordable housing and preserving the existing stock.

In sum, CLPHA strongly supports the expansion of MTW and this assisted housing reform effort, and we thank you all for the opportunity to provide testimony on these critical issues.

Chairman MENENDEZ. Thank you very much.

Ms. Hovdestad.

**STATEMENT OF DIANNE HOVDESTAD, DEPUTY DIRECTOR,
SIOUX FALLS HOUSING AND REDEVELOPMENT COMMISSION,
ON BEHALF OF THE NATIONAL ASSOCIATION OF
HOUSING AND REDEVELOPMENT OFFICIALS**

Ms. HOVDESTAD. Good morning, Chairman Menendez, Senator Reed, Senator Crapo. My name is Dianne Hovdestad, and I serve as the deputy director of the Sioux Falls Housing and Redevelopment Commission in South Dakota. I am also representing the 22,000 individual members and 3,200 agency members of the National Association of Housing and Redevelopment Officials, the oldest and largest group representing housing and community development professionals. I am here representing many, many housing authorities across the Nation.

The voucher program is a difficult program to administer and difficult for households and landlords to participate in as the regulations are very complex. My written testimony has many recommendations of what I hope you will consider enacting, but there are three things I implore you to consider based on my 35 years of experience in administering rental assistance programs:

One, adequate funding for administration of the program, on the budget appropriations side, that Congress provides adequate funding for the administration of the voucher program. In many ways, Sioux Falls Housing is indicative of a great number of housing authorities serving rural, geographically large areas. I mention this because the impact of the current situation with the administrative fees affects both large urban housing authorities as well as smaller rural housing authorities, but in substantially different ways.

Given this need, the time for relief is now. I will use Sioux Falls Housing administrative fees to demonstrate how difficult it has become.

In fiscal year 2003, Sioux Falls Housing earned approximately \$970,000 to administer \$7.3 million in voucher rental assistance for 1,500 households. In calendar year 2012, Sioux Falls Housing anticipates that it will receive approximately \$950,000 to administer \$10 million in rental assistance for approximately 1,800 households. Sioux Falls Housing is receiving less money to administer \$3 million more in rental assistance to an additional 316 households.

I am pleased that Chairman Johnson recognized that housing authorities could not perform all the required program tasks based on the pro-ration in 2012. In order to assist housing authorities, Senator Johnson introduced an amendment to address this issue. I hope you will address the administrative fee in any legislation that you develop.

Two, rent simplification. The determination of a household's income which is used to calculate the amount of rental assistance and the household's share of rent is an extremely complicated process. Every source and amount of a household's income must be verified by a third party and reported to HUD. This includes amounts that are specifically excluded by statute and/or regulation. Each household participating in the voucher program must provide information annually to determine if an adjustment should be made in the amount of their rental assistance and tenant share of the rent. Each interview takes approximately 30 to 45 minutes to complete. I am asking that the complexities of the rent calculation

requirements be alleviated through quick rulemaking changes so long as statutory requirements are met. A rapid response to this request would mean immediate relief to staff time currently dedicated to meeting the current complex requirements. Changes would alleviate the administrative costs associated with the current calculations regime and result in a twofold effect of reducing administrative costs currently associated with the current rent calculation regime while also providing immediate relief to address my request.

Three, regulatory relief. Housing authorities across the country, whether small rural agencies like the one I serve or the larger urban communities, desperately need responsible regulatory reform. I am respectfully requesting that you bring your significant influence to bear at this time to stress to the Department the urgent need for quick action. For nearly 10 years, the National Association of Housing and Redevelopment Officials has urged the Department to take quick action. With your permission, I would like to submit the Mountain Plains NAHRO's request for regulatory relief and the Department's response for the record.

Chairman MENENDEZ. Without objection.

Ms. HOVDESTAD. Positive action on requested regulatory relief by the Department would provide not only the regulatory relief I mentioned but, more importantly, increase staff time to address the important matters of providing excellent customer service to our community, greater transparency to our landlords participating in the voucher program, and place low-income families in safe, quality housing.

Thank you.

Chairman MENENDEZ. Thank you.

Ms. Husock.

**STATEMENT OF HOWARD HUSOCK, VICE PRESIDENT FOR
POLICY RESEARCH, MANHATTAN INSTITUTE**

Mr. HUSOCK. Thank you, Mr. Chairman, and thanks to this Committee for devoting its time and attention to the important issues of low-income housing.

The legislation recently considered by the House focused both on how best to finance and maintain affordable housing and how to structure tenant-based low-income housing programs so as to encourage self-sufficiency and upward mobility. I will focus mainly on the Housing Choice Voucher Program and, particularly, the Moving to Work Program, which, like Mr. Kinard, I will strongly support.

Over the past two decades, housing vouchers have emerged as a major program for many of our lowest-income households, roughly doubling in size. In fiscal year 1998, the Congress appropriated \$9 billion for local public housing authorities to distribute vouchers. More recently, HUD has allocated \$17 billion for that same purpose. Spending on vouchers has even surpassed the cash benefits of Temporary Assistance for Needy Families.

One can well understand why the challenge for the lowest-income families earning 30 percent or less of median to find housing is substantial. It is important, however, to understand the housing choice voucher not just as a housing program but, in addition, as a key aspect of U.S. social policy, that is, our policy aimed at aiding

the long-term upward mobility of the most disadvantaged households. That traditional goal of social policy—what President Johnson called a “hand up”—is relevant to this program in which many of the most vulnerable households are enrolled.

Like traditional public housing, nonelderly voucher recipients with children are largely single-parent families, 94 percent headed by single women; and they are of extremely low income, 47 percent at 20 percent or less of national median. So the importance of structuring the program to provide incentives such that households move toward economic self-sufficiency is crucial. But this also has a practical dimension. The long waiting list and the likelihood that appropriations will not be significantly increased means it behooves us to find ways to help the participants move up and out if only to serve others in need. But HUD data shows that currently 50 percent of voucher tenants and 48 percent of public housing tenants have been in the program for 5 years or longer.

It is in this context that it is crucial to set goals for the program that go beyond administrative efficiency, as important as that is, and that public housing authorities which administer the program seek to improve such metrics as employment, household income, and the graduation, if you will, from the program. To find the best ways to manage and structure it so as to achieve these goals, it makes sense to give the Nation’s network of 3,200 public housing authorities flexibility based on the model of efforts authorized under the modestly scaled, too modestly, Moving to Work initiative, which should be made permanent and expanded to include as many authorities as possible.

We are already seeing very significant social improvement through Moving to Work to date. Notably, the Atlanta Housing Authority has used its MTW waiver to link a work requirement with extensive counseling to the voucher, and they have increased work participation among voucher holders—among its housing population, rather, from 14 percent in 1994 to 71 percent today. Other authorities—including Cambridge, Massachusetts; Charlotte, North Carolina; Portland, Oregon; Ravenna, Ohio; the State of Delaware—are using MTW in ways to change their rent structure so as to stop discouraging work and to encourage savings. An expansion of Moving to Work would allow other authorities to try similar experiments, even to consider, as Philadelphia did, an outright time limit.

Flexibility for local housing authorities must be guided by clear goals shaped by the Congress and overseen by HUD, but there is just no reason to limit the flexibility that comes with Moving to Work, an initiative begun by the Clinton administration, to just 35 of the Nation’s 3,200 housing authorities.

Finally, I would like to address briefly the proposal also discussed in the House bill’s language to convert public housing capital and operating subsidies into project-specific vouchers, both as a means to preserve affordable housing developments in their current use and to facilitate increased investment of private capital to reduce an estimated \$30 billion in maintenance backlog. The rationale for doing this in a time of serious maintenance needs and budget shortfalls is obvious, and the approach may provide a useful

additional tool for public housing officials facing serious deferred maintenance.

I would urge, however, that Members of the Committee be cautious in a too broad embrace of this plan which could be fiscally consequential. Anytime public incentives divert private capital, we cannot be sure what opportunities we are forgoing, and the same is true for preserving specific housing developments when there may be a higher and better use for their sites in ways which could benefit those of all income.

Innovative maintenance financing may be worth trying in a limited number of circumstances but should not be seen, in my view, as a way to preserve unit by unit all public and subsidized housing. Better for the Congress through HUD to encourage additional approaches which could include, for instance, the sale of high-value parcels currently owned by local housing authorities so as to create locally based maintenance endowments for remaining units.

Let us be guided both in how much public housing we preserve and how we set the rules for housing choice vouchers not by a narrow goal of preservation or program expansion, but by a broad determination to help improve the economies of our cities in ways that uplift the poorest households.

Thank you very much.

Chairman MENENDEZ. Thank you.

Mr. Fischer.

**STATEMENT OF WILL FISCHER, SENIOR POLICY ANALYST,
CENTER ON BUDGET AND POLICY PRIORITIES**

Mr. FISCHER. Thank you, Chairman Menendez, Senator Reed, and Members of the Subcommittee. It is a privilege to testify before you today, and I want to thank you also for holding this hearing on the important topic of strengthening and streamlining Federal rental assistance.

The Nation's rental assistance programs assist more than 4 million low-income families, most of them elderly people, people with disabilities, and working-poor families with children. Research has shown these programs to be highly effective in addressing problems like homelessness and housing instability, but it has been a long time—14 years—since Congress has enacted authorizing legislation covering the voucher and public housing programs, and there are opportunities to improve the programs based on lessons learned and changed circumstances.

Both AHSSIA, the bill that the House considered this year, and the Section 8 Voucher Reform Act that Congress has considered in previous years contain a set of largely similar core reforms that would strengthen and update these programs through reducing administrative burdens for agencies and owners, allocating voucher funds more efficiently, and strengthening support for work.

Even more pressing, these bills contain large Federal savings. According to CBO, the December 2010 version of SEVRA, which is the most recent, would reduce the amount of funding needed to maintain the current level of rental assistance by more than \$700 million over 5 years. According to the Financial Services Committee, the most recent version of AHSSIA, which contains some additional cost savings measures, increases that to \$1.5 billion.

Those numbers do not include savings from administrative streamlining which would reduce costs by an additional several hundred million dollars.

My testimony contains details on the core reforms in these bills. Just as one example, I think the provisions streamlining determination of tenant rents and incomes are one of the key reforms that would really reduce administrative burdens as well as generating other cost savings. The change to doing recertifications for people in fixed incomes every 3 years, as has been mentioned, is a good example of that. That would reduce burdens on mostly elderly people and people with disabilities who would be affected and also generate large administrative savings for agencies. It is just one of a large number of similar commonsense, good Government reforms that are in these bills. These are largely proposals that HUD supports but cannot move forward with without congressional authorization. They have been vetted for a number of years in Congress and have had strong bipartisan support, and they are supported by a broad range of housing groups, as evidenced by the letter from 810 organizations around the country that was sent to the Banking Committee urging prompt action.

I would urge the Committee to be cautious with more controversial provisions. For example, a sharp expansion of the Moving to Work Program raises a number of risks, such as large shifts of funds from the voucher program to other purposes that would result in many fewer families receiving assistance. And any Moving to Work expansion that goes beyond the compromise provision that is in the most recent House bill would also undermine the broad support that the bill has received so far.

I want to close by just emphasizing how important it is that the country's rental assistance programs work as efficiently and as effectively as possible so that they can assist as many families as they can. In concrete terms, the savings in these bills would mean that housing agencies can serve more needy families or, if necessary, avoid painful cuts in assistance. These are critically important changes, especially now when budgets are expected to be tight for years to come, but the need for rental assistance remains very high with fewer than one in four families eligible for assistance getting help.

The voucher reform bills, the rental assistance reform bills would take a big step toward achieving those goals of improving these programs, and I would urge the Congress to enact them as soon as possible so that the savings and other benefits from the programs can begin to be realized as soon as possible.

Thanks again for the privilege of testifying before you, and I will be happy to take any questions that you have.

Chairman MENENDEZ. You are so efficient. You had another minute.

[Laughter.]

Chairman MENENDEZ. Ms. Couch.

**STATEMENT OF LINDA COUCH, SENIOR VICE PRESIDENT FOR
POLICY AND RESEARCH, NATIONAL LOW INCOME HOUSING
COALITION**

Ms. COUCH. On behalf of the National Low Income Housing Coalition, I would like to thank Chairman Menendez for holding this important hearing today at a time when the need for rental assurance is growing across the United States.

The shortage of affordable and available units for extremely low income households in 2010 was 6.8 million units, 400,000 more than it was in 2009. For extremely low income households, there is a shortage of more than 189,000 affordable and available units in New Jersey alone.

Ideally housing reform legislation would result in both more affordable housing and more efficient use of Government resources. Recent versions of housing reform legislation would result in 5-year savings ranging from around \$700 million to more than \$1 billion. These are tremendous savings, the vast majority of which come from uncontroversial policy changes.

In any reform bill, we urge the Subcommittee to balance new program flexibilities with the need for program accountability. In the long run, we fear that if Congress' understanding of the program's use and impact fade due to fewer reporting requirements, the result would be decreased resources. The reforms that we support bring efficiencies while continuing to hold all parties accountable for the use of Federal resources.

We support several changes that would encourage increased earned income and simplify rent setting while maintaining Brooke, the program's underlying tenet that each household pays a rent that is affordable, even as its income fluctuates.

The Nation would also benefit from enactment of improvements to the project basing of vouchers, which would allow otherwise unaffordable units to meet the Nation's most significant affordable housing needs.

The need for clear direction to HUD on the allocation of voucher renewal funding was a primary reason for the development of reform legislation several years ago. We support language directing HUD to base renewals on actual costs and leasing data as well as policies that would allow agencies to over-lease vouchers and reserve offset and reallocation policies.

We would like any Senate housing reform bill to include provisions to improve the portability of vouchers from one housing agency's jurisdiction to another, to require HUD to establish certain standards and procedures for assessing the performance of agencies' voucher programs, and to guard voucher households from paying excessive rent burdens. Each of these provisions improve the voucher program for tenants, and each has thus far been left out of the House versions of the bill this session.

On another note, the Low Income Housing Coalition was shocked and disappointed that the Administration requested increased minimum rents in its fiscal year 2013 budget request. We referred to HUD's proposal as one that "picks the pockets of the poorest of the poor." It follows then that we do not believe increasing minimum rents is needed to create a robust housing reform bill. The House's latest proposal increases minimum rents for households with in-

comes of less than \$2,800 a year. While it may be hard to imagine that there are households with incomes so low, the reality is that these households exist, and the programs keeping them off the street, out of the back seats of cars at night, and out of shelters are HUD's voucher, public housing, and project-based Section 8 programs.

We also support other major reforms to the voucher program which we know are outside of the scope of any bill this year. Three policies that would significantly increase households' choice and ability to use their vouchers are the regionalization of voucher assistance and administration, the enactment of Federal source of income laws, and instituting nationwide small-area fair market rents, an effort for which HUD is currently doing a demonstration.

Of course, a real breakthrough would be to make assistance by the Housing Choice Voucher Program an entitlement to those households eligible for it, at least for certain populations. Today the only housing entitlement programs are for homeowners, the vast majority of those resources going to assist high-income households.

While the coalition has agreed to a carefully crafted version of Moving to Work expansion, referred to by others here as the "stakeholder agreement," and I believe attached to CLPHA's testimony, history shows that Moving to Work expansion has stalled housing legislation for years. We support moving forward with voucher reform legislation without an MTW title. Moving to Work legislation could be considered separately while the significant savings and efficiencies of a broader housing reform bill could be taken advantage of now.

We also encourage Members of this Subcommittee to support capitalization of a National Housing Trust Fund, which Congress authorized in 2008 thanks to the leadership of Senator Reed. The National Housing Trust Fund, coupled with the stabilization of HUD's rental assistance programs by housing reform legislation, could end homelessness in the United States.

Thank you for your work to improve HUD's programs.

Chairman MENENDEZ. Thank you. Thank you all.

There is a lot of ground to cover here, so let me start with you, Mr. Kinard and Ms. Hovdestad. Both of you are on the ground. You are working every day to implement these programs on behalf of low-income families. We have been talking about this for some time. I think there is a tendency to forget how incredibly pressing the need for action really is. I have heard from affordable housing advocates and housing professionals telling me that these reforms really cannot wait and are urgently needed now.

Can you discuss the impact over time if Congress fails to act soon to implement some of the specific reform proposals we have talked about? What are the consequences on the ground?

Mr. KINARD. I certainly can do some of that. The consequences really are devastating. There are financial consequences associated with cumbersome, burdensome processes that simply we cannot afford and each year are escalating. There is the potential for loss of units. We have many units in Newark alone right now that are boarded up, that we simply do not have the funding to put back online. And a lot of our funding is being used today to ultimately fill out score sheets and fill out reports and send information in.

And it is really sad riding to work every day past units that have the windows boarded up and the doors boarded up, knowing that we have waiting lists that have thousands and thousands of families on them for many, many years, and realizing that I have got to divert that funding to ultimately respond to needs that have been on regulatory books for many, many years, and unfortunately really do not get to the heart of the mission that we are in business to do.

So essentially for the availability of future housing, for, I think, the future existence of our program, and especially in light of the outlook of budgets moving forward in forward years, I think the impact is devastating if we do not move soon.

Ms. HOVDESTAD. I would like to echo what was just said and that we do spend a lot of time working on reports that we have not had to do in the past. HUD is putting a lot of emphasis on lease-up, and so every month we respond to questions from HUD about why we are not leasing up to our baseline units. And part of our problem of underutilization of our vouchers is that we are unable to hire staff that has left the agency's employ for other jobs, and so the rest of the workload is distributed to the other staff, and they cannot take on any more than they currently have. It is taking longer to get the inspections done because of the lack of staff. And then the interim changes that we are required to do, they are taking a lot of time also.

Another big impact is on the Family Self-Sufficiency Program that we have, and I would like to thank Senator Reed for his work on the FSS Program. We have a very successful Family Self-Sufficiency Program, and we were able to use some of our administrative fees to help meet some of the unmet needs like personal counseling. We have a lot of participants who have a lot of personal issues that are barriers for them becoming self-sufficient. We have used it to put on workshops on financial wellness and what it takes to buy a house and things like that.

On the regulatory side, we just spend a lot of time kind of doing things that seem kind of redundant and unnecessary, like the reporting of excluded income.

Chairman MENENDEZ. Since you are both representing a different universe of housing authorities here, what is the reality of housing authorities' refusing to run their voucher programs, turning down VASH vouchers to assist homeless veterans, loss of hard units as a result of the lack of reforms? With your colleagues, do you experience that?

Mr. KINARD. Well, I feel that. We have not done that. We have not been forced to do that. But we have had to make similar decisions, and I will give you a concrete example that we face on a monthly basis.

Due to reduced admin fees and due to our strain in terms of resources, we are making decisions in terms of how many staff we have associated with interim reexamination processes and annual reexamination processes versus our ability to actually issue vouchers and get families on the program. It is a budgetary issue. It is a commonsense issue. If you only have ten staff and that is all you can afford, but you must get these forms in, somewhere in there you have got to make a decision between the two. And I believe

those housing authorities have made probably the most difficult choice in many of those directors' and staffs' career that they do not want to provide insufficient service or they do not want to jump into something that ultimately will provide less than decent, safe, and sanitary housing. Instead, they will turn those vouchers in, and hopefully someone else can utilize those correctly because they simply do not have the funding to run the program.

Chairman MENENDEZ. All right. I have several other questions, but I want to turn to Senator Reed first.

Senator REED. Well, thank you, Mr. Chairman, and I want to thank the witnesses for excellent testimony and giving great perspectives on some very critical issues. I think Mr. Husock pointed out that it is not just about keeping people in housing; it is giving them a chance to move up, move forward, move ahead. And I think that is a theme that we want to support.

That takes me back to the point I raised in my opening statement about the Family Self-Sufficiency Act. Thank you, Dianne, for using it so well and effectively. But I wondered, Mr. Fischer, with your colleagues at the Center on Budget and Policy Priorities, have you looked at this issue and can you give some comments about how valuable the program is and what we can do to continue it? In terms of changes, HUD is making similar proposals as I am.

Mr. FISCHER. Sure. I think this is an important issue to look at, ways to help people who receive rental assistance move toward self-sufficiency. As context, there are a lot of people on rental assistance for whom this is not an issue. Half of the caseload is elderly people or people with disabilities. Another 30 percent is working families. But there is a segment of the population that could use support to help move toward self-sufficiency and increase their earnings, and I think the Family Self-Sufficiency Program is a really strong approach to doing that. It combines both supportive services and counseling and also earnings incentives through the creation of escrow accounts, and that is a combination that based on the available information does work in terms of helping people increase their earnings.

Like you said, HUD is considering some—has supported some similar proposals to strengthen the Family Self-Sufficiency Program. The AHSSIA bill that is in the House has a number of provisions that move in the same direction, and I really thank you for looking at this issue and looking at ways to move this legislation forward.

I think one example of an important change that needs to be made and that all these entities are looking at is extending the program to the project-based Section 8 program, which is, along with public housing and vouchers, the third large rental assistance program. Currently the Family Self-Sufficiency Program is not available. There is no reason for that. It is equally applicable in project-based Section 8. And so proposals like yours that would extend it there would really do a lot of good for the people who are in that program.

Senator REED. Thank you very much.

Just a final question, because I know the Chairman has additional questions. Ms. Couch, you mentioned the National Housing

Trust Fund. From your evaluation, capitalizing this program, getting it up and running, how could it help the current crisis?

Ms. COUCH. Well, the Nation's housing needs, as you know, are overwhelmingly clustered within households with extremely low incomes, households below 30 percent of area median income. And the National Housing Trust Fund, as Congress designed it in 2008, would dedicate the majority of its assistance to households at that really deep income level.

Today we have these great shortages, like almost a 190,000-unit shortage in New Jersey, because we are not producing housing that is affordable to incomes at this low of a level. We used to with public housing and project-based Section 8, but the numbers of those units are shrinking. The trust fund could step in and really produce units affordable to households at that low income level and also preserve other units that might be unsubsidized today and really set this Nation on a path toward ending worst-case housing needs, as HUD defines them, all of the—more than 73 percent of ELI households pay more than half of their very low incomes on rent, and ending homelessness in the United States. So we see the trust fund as really critical to setting the Nation on a path to end homelessness in the country.

Senator REED. Let me just add one final point. There might be, particularly at this moment, an additional benefit, that is, putting people to work building rental properties, renovating rental properties. We have a very weak housing market. I know Senator Menendez has been leading the way on several different initiatives. Your legislation, which I am proud to cosponsor, is designed to try to get people back not only into housing but people banging nails, et cetera, to build housing.

Ms. COUCH. It is certainly a jobs program as well. We appreciate that. And I think that, you know, the home builders have all sorts of great data on the numbers of jobs, both immediate jobs and long-term jobs, that can be sustained through the development of housing.

Senator REED. You look like you have a comment, Mr. Husock, and I want to give you the chance. Are you all set?

Mr. HUSOCK. If I might very briefly, with the Chairman's permission, I wanted to add to Mr. Fischer's comments about Family Self-Sufficiency in response to Senator Reed's question and to echo what Ms. Couch said about the importance of not having a rent structure that penalizes people for improving moving up and forward, as the Senator puts it, because when you have a Brooke amendment-based rent structure that has a set percentage, the more you earn the more you pay, so, in effect, the marginal tax rate on our poorest households is higher than for our highest-income households. That is ridiculous.

And so setting fixed rents and allowing people to earn more but to keep what they earn perhaps in the context of other requirements—with which we may not agree, but nonetheless we agree on that, I think—I think would be very important to promote self-sufficiency also in the context of counseling and other programs.

Senator REED. My time is up, but the possibility exists, too, of sort of a shared appreciation where, you save more. But you contribute a little bit more, too. So I do not think it would necessarily

have to be either/or, either fixed or not. But I think there is a way in principle we can work out a formula that encourages moving up. Let me just thank you for that insight. It is valuable.

Do you have a quick response, Ms. Couch?

Ms. COUCH. I just wanted to clarify that we believe strongly that each household's income should—each household's rent should reflect its income at the time, and all of the voucher reform bills have included provisions which we think really encourage and allow for increased earned income without, you know, immediately coming and raising people's rent. And so, you know, we support those proposals, but one of the key benefits of these programs is stability, and if your rent keeps going up but for some reason your income goes down, these programs are not providing the assistance we need them to. And so the rents absolutely have to maintain this Brooke standard of fluctuating as a household's income fluctuates.

Senator REED. Well, thank you very much for your insights.

Thank you, Mr. Chairman.

Chairman MENENDEZ. Thank you, Senator Reed, for your leadership in this field.

Let me ask a few other questions here. There are various legislative proposals that would enact a stable voucher renewal funding policy. Currently congressional appropriators set a voucher renewal funding policy each year, which I am told makes it very difficult for housing authorities to plan for the year ahead. In addition, there are various legislative proposals that would clarify how much money housing authorities can hold in reserves for a rainy day without those funds being taken back or offset, so to speak.

Mr. Fischer, you write in your testimony that these voucher funding rules will allow housing authorities to serve many more families with the same amount of funding. Can you explain how the predictability and clarity provided by those simple changes would translate into more families served?

Mr. FISCHER. Sure. When agencies are able to predict how much money they will have and also how much funding they will have in reserves, it can let them manage their funds more predictably. There is history behind this where there was—starting in 2003, there has been a series of changes in the funding formula. It has gotten somewhat more stable in recent years, but during that period we saw the percentage of agencies' vouchers in use drop from around 97 percent down to 92 percent, which translates to about 100,000 fewer families being assisted. And part of this was just that it was much harder to predict both what funding level agencies would get and whether their funding reserves, whether they could keep funding reserves or those would be recaptured. And those played a role in those large numbers of families not receiving assistance. I think stabilizing the funding formula, like SEVRA and AHSSIA would do, would give agencies more certainty and would help them assist more families.

Another sort of specific thing in both bills that would contribute to this is a provision that would allow agencies to assist more families than their authorized number if they had funds available to do this. Right now, agencies, even if they are sitting on unused money and have reserves, they are not allowed to go above their authorized voucher cap. They are penalized for that, and they do not get,

it affects their funding for the following year. Under SEVRA and AHSSIA, agencies could use those extra funds to assist more families, and this would mean not only more families getting help but also the agencies would have a strong incentive to reduce the cost per voucher because they would know that they are able to do that and stretch their funds further and they can help more families.

Chairman MENENDEZ. Let me go back to you, Mr. Kinard, on a different issue. I am concerned nationwide but certainly that New Jersey's stock of federally assisted affordable housing is aging rapidly. We have long been a population center. Affordable housing was built many decades ago and is now in danger of becoming obsolete as a result of a lack of funding for modernization. And I am hopeful that HUD's Rental Assistance Demonstration will serve as an effective tool to preserve affordable housing in New Jersey and nationally. But I share the concerns that have been raised by affordable housing advocates that the lack of funding for RAD will prevent the housing developments with the greatest capital needs from participating in the program.

Could you discuss whether you believe the new RAD authorizing language and the authorization for appropriations contained in the most recent, I think it is an April draft of the House's Affordable Housing and Self-Sufficiency Improvement Act would help open the program to developments most in need?

Mr. KINARD. Certainly. It is our belief firmly that it would, that RAD is an important initiative that ultimately would allow the conversion of much needed deteriorated and distressed public housing into a more stable environment on the project-based voucher side. In fact, in Newark right now we are in the midst of converting a 220-unit public housing building into project-based voucher. We have been able to partner with a private bank and generate nearly \$30 million to go into a building that—we talk about the future—maybe in 5 or 8 years this building would have become obsolete, and those seniors would likely had to have been moved out of the building.

So we know that putting money in RAD will supplement in some regards, in some jurisdictions, the funds that are ultimately needed to make their projects work. Is it enough? Clearly not in certain jurisdictions. But putting money into it in the demonstration program will make some jurisdictions who are one side of the fence able to get on the other side of the fence and actually participate. And hopefully it will demonstrate a program that will generate more funds, will demonstrate the need for more funds, and allow us to get even more housing authorities involved.

But I think there is a lot of training and technical assistance and evaluation that those funds will also support that need to occur with the RAD conversions.

Chairman MENENDEZ. All right. So let me move to Moving to Work. You had a time in the Pittsburgh Housing Authority, which had a Moving to Work Demonstration project, and you are now at the Newark Housing Authority, which does not have a Moving to Work Demonstration project. So I think you are in a unique position to talk to us from both perspectives. Can you speak to the good and the bad as you see it?

Mr. KINARD. Well, the good was Pittsburgh with Moving to Work. The bad is Newark without Moving to Work. It is a very different environment, and it actually gets even down to the depths of the work culture. When you have Moving to Work, you tend to think about problems as any corporation would think about a problem that they are facing. You tend to think about your funding as a source to solve problems and create new housing for the homeless, create self-sufficiency programs, preserve expiring use housing 236. 236's do a number of innovative initiatives that the community that you operate in is actually desperately needing.

When you do not have Moving to Work, you are really focused on trying to score your best on some PHAS or SEMAP score sheet or getting all your forms in because, really, that is the bar. You are operating in a very limited box, and unfortunately, many times you can see the light at the end of the tunnel and the trouble heading your way. But you can only move so far left and right in a non-Moving to Work environment, and you have to let the car run over you.

So, you know, that is—in essence, I think the importance of Moving to Work is it will allow us to move more fluidly and flexibly in an environment of limited funding, and it will allow us to find greater administrative cost savings and hopefully serve even more families in quality housing. And it has been proven. I mean, Moving to Work has been out there. We were in it in Pittsburgh in 1998, and we were able to do some really innovative things on the self-sufficiency side, on the housing production side, really, really creative things. So it has been proven to work, and I think it is a program that really merits strong consideration, deep expansion, and obviously taking into consideration some of the concerns of others.

Chairman MENENDEZ. Let me broaden the question. I wanted to get your perspective because you have been in both environments. So I will open it to anyone on the panel who wants to have an opinion.

We have long debated whether or not HUD's Moving to Work Demonstration should be expanded and made permanent, and I can see the attraction from a director's position. The question is whether that is the way in which we take you out of the straitjacket that you are in or whether the actual program is positive in terms of results at the end of the day that would want to expand it. I am talking about beyond the straitjacket of how you have resources to deal with your challenge.

This issue has actually been a sticking point preventing us from moving ahead on the substantial set of changes that HUD's rental assistance programs that we can agree on. So I am encouraged to hear that the stakeholders—many groups have come together around a compromise solution which would pair an expansion of some elements of the Moving to Work Demonstration Program with tenant protections and a strong evaluation component. Can you discuss the compromise, which I understand is incorporated into the latest version of the Affordable Housing and Self-Sufficiency Improvement Act, and whether it is acceptable to you and the organizations that you represent? And if so, why? And if not, why? Anyone who wants to comment.

Ms. COUCH. I will start. We have opposed, strongly opposed Moving to Work expansion for many, many years and got back to the table on Moving to Work last winter and sat down with most of the groups at this witness table and several others and HUD to work out what we call the “stakeholder agreement.” The agreement would expand Moving to Work’s footprint substantially. Right now there are about 35 agencies that are considered MTW agencies.

The agreement would expand a basic version of Moving to Work to 500,000 units of public housing and vouchers, and under basic, the Moving to Work agencies would have what I see as really broad flexibility administratively to fudge money between the public housing and voucher accounts, to reporting requirements to HUD, simplification of rent setting, not rent reforms, and have a lot of really administrative simplifications, many of which, you know, we have talked about over the years as part of the voucher bills.

But the stakeholder agreement and what was included in the April 13th version of AHSSIA would also include an enhanced MTW whereby up to 25 housing authorities could access this enhanced authority where they could enter into programs that maybe would institute work requirements or time limits, or huge rent policy shifts that would divorce people’s rents from what their incomes are. And all of those, you can see the problems for tenants in each of those, but the bill language would also require really strict reporting and evaluation requirements and a stakeholder advisory committee that would try and watch and make sure that no harm was being done but that successful programs could be replicated in the future. And there are a lot of tenant protections and assuredness that households—that significantly the same number of households would continue to be served.

And so all of those things are dangers in the current MTW landscape that I think would be addressed by the stakeholder agreement.

Chairman MENENDEZ. Anyone else?

Mr. HUSOCK. I think that Ms. Couch’s remarks demonstrate why it is a compromise, and some of the potentials that concern her are exactly what I think makes the bill attractive to those who are concerned about the open-endedness of housing assistance and not conforming to the goals that Senator Reed enunciated of moving up and moving forward.

So in the context of a rigorous evaluation, could work requirements or time limits be draconian and drive people into homelessness if they do? Well, that would be a bad thing, and we would have to know about that. Could it encourage, as we have seen in some housing authorities, improvement in the situation and making room in a limited number of unit universe, because entitlement is not a likely prospect anytime soon, assistance for others who are on the waiting list? That seems to be worth trying in a relatively confined context in an atmosphere of evaluation.

So that is what makes it an attractive compromise, and I think if those aspects of it were not included, you would not see the same buy-in.

Chairman MENENDEZ. Mr. Fischer.

Mr. FISCHER. Like Linda, we have had strong concerns about expansion of Moving to Work under the current rules. One issue is

the elimination of a lot of key tenant protections that would, for example, get rid of the guarantee that tenants would pay affordable rents that Linda and Senator Reed were talking about earlier. Because it allows shifts of funds from the voucher program to other purposes, when we have looked at data on the program today, one of the things that has resulted in is many fewer families receiving assistance per dollar of Federal funding, and that is a concern when the resources are already very limited for housing assistance.

Another really strong concern is that Moving to Work is funded as a block grant under the existing—it goes from the existing housing voucher system where funding is based on the actual cost of funding a particular number of units. Instead, it is a fixed block grant amount.

When we look at other housing assistance or HUD programs that are funded as block grants, what we see is that they tend to erode or see cuts over time in a way that the Housing Voucher Program has not experienced, and I think a big part of the difference is these funding programs, for example, the four largest HUD block grants have seen their funding erode by 38 percent in inflation-adjusted terms over the last 10 years, where funding for the Housing Voucher Program has seen some shortfalls but it has basically kept up with the need. And so that is another big concern about MTW.

The agreement that is in the House bill contains a lot of protections that reduce these risks. I do not want to overstate it. I think we still see some significant risks in that bill on all of those areas that I mentioned. But in our view, the core reforms that are in SEVRA and AHSSIA are so important and so beneficial and the restrictions in the House agreement are strong enough that our view is that the package together is worth enacting if that is what it takes to get those core reforms.

Chairman MENENDEZ. Ms. Hovdestad.

Ms. HOVDESTAD. Yes, NAHRO has been working with the Department to expand the Moving to Work Program. The concern that we have is that there is no harm done to the current Moving to Work agencies and their agreements with the Department. Moving to Work as a separate bill would be OK, but our preference would be to expand the MTW program as soon as possible.

Chairman MENENDEZ. Well, very good. I think that that gives us a good sense of where we are at. Hopefully we can move here because I get the sense that our continuous delay here is creating consequences at the end of the day, and moving would have a powerful, beneficial benefit. So I am hoping that this hearing and the foundation that we have laid here assists us in the fall to see if there is a possibility.

With that, I appreciate the testimony of all of you. The record will remain open for 1 week so that everybody can submit their comments, Members can submit their questions. If we do have questions and we send them to you, we ask for your speedy response so we can close the record as soon as possible.

With that, this hearing is adjourned.

[Whereupon, at 11:05 a.m., the hearing was adjourned.]

[Prepared statements, responses to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF CHAIRMAN ROBERT MENENDEZ

Local public housing agencies across the Nation face an existential threat. The current Federal budget crisis looms over a public housing inventory that is already stressed by inadequate appropriations and the famously burdensome HUD regulatory regime. The high-water funding mark for FY2013 appropriations is now known. House and Senate appropriations bills are strikingly similar and both significantly underfund the Public Housing Operating Fund and the Capital Fund. Only deeply committed authorizers can significantly improve conditions in current public housing funding by passing legislation that improves local flexibility, spurs revenue growth and lets agencies take advantage of cost-efficiencies that are within easy reach.

Public housing is, in the words of the HUD Secretary “an irreplaceable public asset that must be preserved.” That asset serves among the poorest households in more than 3,000 communities, both large and small, all across the country. Public housing is community owned, place based, and locally accountable. It provides stable homes to more than 2 million people every day of the year—and has served untold millions more over the last 75 years. Public housing has survived rapid neighborhood change and every sort of policy direction prescribed by Washington. It endures because hundreds of thousands of elderly and disabled households will always have need for safe, secure, and decent homes in their neighborhoods. Public housing will also endure for the more than 800,000 children whose parents need the time and services of a secure platform to prepare for better, stronger lives. As you know, public housing is easily maligned by occasional glaring headlines and is too often targeted by outdated stereotypes. The truest story of public housing, however, is one of safe and well-run housing that provides a real sense of community and that has quietly helped produce generation after generation of productive citizens including members of Congress and the Supreme Court, business leaders, schoolteachers, elite athletes, soldiers, artists, and public servants.

Authorizers in the 112th session of Congress have real opportunities to pass legislation that will limit the loss of units as a result of chronically low funding and enormous amounts of deferred capital improvements. If the public housing inventory is to be salvaged for the next generation, it will need a broad menu of funding opportunities that can begin to address the enormous \$26.5 billion capital needs backlog that threatens it. This authorizing Committee and its counterpart in the other chamber have the ability to set public housing on a new, more streamlined and sustainable course by passing key pieces of legislation. They include:

Affordable Housing and Self Sufficiency Improvement Act (AHSSIA) is proposed legislation that promises to deliver long-awaited and much needed reforms to the Section 8 voucher program. Voucher agencies are particularly stressed as Congress has failed to provide adequate administrative fees for the program that is uniquely rule-bound and labor intensive. With no ability to adjust to these real-time marketplace conditions; HUD continues to apply SEMAP, the program’s report card, as if agencies were fully funded and fully staffed. AHSSIA offers agencies administrative flexibility that will help provide some cost-cutting opportunities. Agencies will have fungibility for their Operating and Capital funds and the flexibility to do risk-based scheduling for physical inspections. Agencies will also be able to perform fewer recertifications for fixed-income households and to use a more streamlined rent and income determination process. Overall the bill allows agencies to economize on costs. The bill was gingerly crafted with tenant advocate groups so it has some added complications. For example, the bill allows agencies, for the first time in 14 years, to charge a higher minimum rent of approximately \$70. The opportunity for added revenue comes with new reporting and procedural requirements.

Of special importance is the section of AHSSIA entitled “Flexibility for High-Capacity HAs” that makes permanent the highly useful and successful *Moving to Work (MTW) program*. The bill also allows for a significant expansion of the program but limits participation primarily to PHAS and SEMAP high performers. A Moving to Work (MTW) expansion was recommended in HUD’s own 2010 interim MTW report to Congress. The report stated “MTW provides unprecedented insight into alternative methods of providing housing assistance. By prolonging and doubling the number of participating agencies, the housing industry stands to learn even more from this unique resource.” This successful program has survived for 16 years in spite of unfounded criticism of the MTW demonstration. This section of the AHSSIA consumed much of the bill’s negotiations and added more narrow definitions of households served by MTW. The enormous transformative efforts in cities like Atlanta, Chicago and Philadelphia might not have happened if baseless fears had been allowed to rule implementation of the MTW demonstration. MTW is the most hopeful preservation solution for the greatest number of agencies at HUD’s disposal. The

program can help counter the deep and chronic funding shortfalls in public housing programs. To date, MTW agencies have used the program's flexibility to significantly expand affordable housing opportunities in their communities.

Also included in AHSSIA is \$30 million in funding for the Administration's *RAD* (*Rental Assistance Demonstration*). RAD is the Administration's signature program to help housing agencies convert their public housing properties to a more reliable Section 8 funding platform using either project-based vouchers or project based rental assistance. Appropriators launched RAD in the FY2012 THUD Appropriations bill but provided no new funding for the program. The bill allowed agencies to convert with only the money currently available to public housing properties. Unfortunately, the current low funding cannot sustain properties in the public housing program—much less support them in the Section 8 program where higher rents are needed to maintain properties and to also support debt service on financed capital needs. The \$30 million will make it more likely that properties with deferred capital needs will be able to participate in the RAD program.

Today public housing finds itself at a critical juncture where poor funding might well determine the fate of the program. The Subcommittee has an opportunity to intercede on behalf of public housing and its residents by working with the House to pass AHSSIA this year. Public housing has been rocked by a series of recent funding and policy choices that call into question the Federal Government's resolve to continue its decades-long relationship with local communities to house the poorest among us. It is well within the authority of this Subcommittee to pursue proposals like AHSSIA, with its important MTW and RAD components, that will help preserve assisted and public housing for future generations of needy elderly, disabled, and family households. PHADA looks forward to working with the Subcommittee to find new ways for agencies to use flexibility, streamlining and innovation to bring additional funding resources to support and maintain public housing.

PREPARED STATEMENT OF KEITH KINARD

EXECUTIVE DIRECTOR, NEWARK HOUSING AUTHORITY, ON BEHALF OF THE COUNCIL
OF LARGE PUBLIC HOUSING AUTHORITIES

AUGUST 1, 2012

Chairman Menendez, Ranking Member DeMint, and Members of the Subcommittee, my name is Keith Kinard and I am Executive Director of the Newark Housing Authority and Board Member of the Council of Large Public Housing Authorities (CLPHA). CLPHA is a national, nonprofit membership organization that works to strengthen neighborhoods and improve lives through advocacy, research, policy analysis, and public education. CLPHA's members comprise nearly 70 of the largest Public Housing Authorities (PHAs), located in most major metropolitan areas in the United States. These agencies act as both housing providers and community developers while effectively serving over one million households, managing almost half of the Nation's multibillion dollar public housing stock, and administering nearly one quarter of the Section 8 Housing Choice Voucher program.

The Newark Housing Authority (NHA) has over 11,000 public housing and housing choice vouchers. NHA is the largest public housing authority in New Jersey and one of the largest in the Nation. We have a portfolio of 44 public housing communities with a total of over 7,000 rental units scattered throughout the City of Newark. NHA also administers up to 4,000 Housing Choice Vouchers (Section 8) within the city limits. A unique aspect of the Newark Housing Authority is that the agency also serves as a redevelopment authority and uses that power to enhance the renaissance of Newark. As a redevelopment authority, the NHA has a stake in the creation and maintenance of safe, livable neighborhoods and the expansion of economic opportunities in their communities.

We thank the Subcommittee for holding this hearing on "Streamlining and Strengthening HUD's Rental Housing Assistance Programs" and appreciate the opportunity to comment on those matters that we believe are critical to include in any legislation to improve and reform HUD's rental assistance programs. As you know, for many years, CLPHA has been active in these legislative efforts.

We have most recently been engaged in efforts to improve the draft legislation entitled, "Affordable Housing and Self-Sufficiency Improvement Act of 2012" (AHSSIA) in the U.S. House of Representatives. AHSSIA is the latest iteration of recent endeavors to reform and advance the Section 8 Housing Choice Voucher program which began in the 109th Congress and continued with the "Section Eight Voucher Reform Act" (SEVRA) and the "Section Eight Savings Act" (SESA) through the 110th and 111th Congresses. While we have seen different variations on a theme

with the various legislative proposals—with refinements and degree of emphasis—there have been certain core components in most versions of the reform proposals. Included among those core features which CLPHA strongly supports are simplification of rental assistance administration; preservation of the housing stock; protection of tenants; and expansion of funding flexibilities and local decision making for housing authorities.

As CLPHA testified last year on SESA, we believe that simplifying and streamlining the administration and funding of the Housing Choice Voucher (HCV) program is a key component to a broader rethinking of the landscape of public and assisted housing in this country. Equally, we believe that expansion and permanency of the Moving to Work (MTW) program is an essential element in strengthening the flexibility and local decision making that housing authorities need to be successful in their communities. And, we believe that the Rental Assistance Demonstration (RAD) program will be critical in helping housing authorities reposition and strengthen an effective housing rental assistance delivery system for residents in a time of shrinking Federal budgets.

Streamlining and Simplification

Voucher Renewal Funding

One activity to streamline and simplify would be a permanently authorized renewal funding formula which would provide predictability and stability to the Housing Choice Voucher program. As you are aware, the shift to the “snapshot” voucher funding formula in 2004 caused a serious mismatch between funding eligibility and vouchers requiring renewal funding. Further, continued uncertainty about determining eligibility each subsequent year undermines agencies’ ability to manage their programs efficiently, as they are unable to predict the level of voucher utilization that they could support. We have seen, since 2007, how funding based on actual leasing and costs provides agencies the resources needed to increase leasing and help additional families. We are slowly recovering vouchers lost to the previous policies. With a renewal formula reflecting actual PHA needs placed in permanent statute, rather than in annual appropriations acts as is currently the case, PHAs will have renewed confidence in the predictability of their funding. A stable and reliable funding formula will provide predictability for housing authorities and landlords alike. They will be able to plan for the future, taking steps to increase utilization, reduce costs, eliminate inefficiencies, and improve service delivery.

Reserves and Use of Funds

Another proposal that we support is to allow housing authorities to retain a portion of their housing assistance payment funds as reserves. An adequate and stable reserve is the bedrock of any well-run enterprise. Housing authorities serving large metropolitan areas must often deal with fluctuations in the number of landlords, the cost of rent, and other market factors beyond their control. We recommend that agencies always be able to retain their full accumulated reserves in order to support leasing in their communities, to allow them the flexibility to respond to changing markets, and to prepare for planned and unplanned extraordinary expenses, particularly in light of Federal budget allocations oftentimes subject to pro-ration. Given their level of unspent funds, some PHAs have taken steps to increase their voucher utilization levels. They have made commitments in their communities to increase leasing by a certain percentage or house a certain number of additional families. Large funding offsets and pro-rations could derail such plans, even if a housing authority is making progress toward their goals. Housing authorities that have defined plans should be allowed additional reserves protection to increase leasing.

The Newark Housing Authority has been struggling with voucher utilization issues for more than a decade. Newark’s Section 8 program consistently spends in excess of 100 percent of the allocated Housing Assistance Payments (HAP) funds; however, we report less than 80 percent utilization on a monthly basis. This discrepancy is due in part to the high cost of rent in the region and an offset of 10 million dollars of reserves. The reserve offset occurred in the midst of a plan to place 2,000 families on the program and created community animosity and trust issues for the Agency.

Additionally, agencies participating in the Moving to Work (MTW) program should be funded according to their agreements, subject to any pro rata adjustment. MTWs rely on their reserve balances as set out in their plans and agreements to leverage funds for redevelopment and revitalization projects. Allowing their funding to be offset by their reserves would severely undermine the goals of the MTW program. HUD has recognized this fact by exempting MTW voucher funding from offset provisions to meet Congressionally mandated rescissions (see, PIH 2009-13, PIH 2008-15). CLPHA supports language in previous versions of SEVRA that clarifies

that MTW agencies shall spend their reserves in accordance with their program agreements.

Finally, CLPHA has long advocated eliminating the authorized-voucher cap on leasing, and we strongly support provisions that allow leasing in excess of authorized levels.

Project-Based Vouchers

CLPHA also supports previous legislative provisions that allows housing authorities to project-based vouchers in their own buildings, as part of a public housing redevelopment, without going through a competitive process. This would eliminate a significant administrative burden that has, in the past, kept PHAs from being able to commit project-based vouchers in a timely fashion. Time is often of the essence in redevelopment deals, and having this provision would facilitate and expedite project-basing of vouchers. Thus, this provision would not only help increase the affordable housing supply using tenant-based resources, but also add to the supply of deeply subsidized hard units for communities that need them.

Newark's experience with this policy is two-fold. We currently own a 100 percent project-based voucher, elderly/disabled hi-rise building that has been thriving for many years. This facility has benefited tremendously from this initiative in many ways. The most prominent benefit is what it provides for the residents. Through Project-Based Vouchering the agency has been able to take on extensive capital needs of the building and upgrade the general amenities for the residents. Our second experience involves our current work to convert a public housing, 220-unit, elderly/disabled hi-rise building into a Section Eight Project Based facility. We started this process 4 years ago and quite frankly we are about 70 percent through the conversion. A significant amount of administrative time and financial resources have been used to competitively procure and ultimately award project based vouchers to ourselves. In Newark, Section 8 vouchers are scarce and we were not able to provide any vouchers to the more than twelve (12) applications who submitted proposals. Everyone's scarce resources could be better utilized.

We also strongly urge the Subcommittee to expand the flexibility of PHAs to use project-based vouchers to leverage private investment for the preservation of affordable housing. Specifically, we support increases in the percentage of its Section 8 vouchers that a PHA may use for project-basing, above the 20 percent cap, and in the number of vouchers that may be project-based in individual projects, for the purpose of preservation. There is precedent for these changes under the recent notice implementing the Rental Assistance Demonstration, which exempts converted units from the 20 percent cap and increases the percentage of vouchers that may be project-based in a single project, though we do not believe that the Department has gone far enough on this second point. Again, project-based vouchers have become an essential tool for PHAs' efforts to meet their local community needs, particularly with populations that require the availability of ongoing supportive services. Increasing the resources that can be used for this purpose can play an important role in preserving affordable housing and efforts to end homelessness and serve other vulnerable populations. In addition, we support the language in the bill that would extend the maximum term of the Section 8 contract from 15 years to 20 years, which will also encourage private investment.

Administrative Streamlining

Some changes that could streamline administrative processes include: options for triennial recertifications for fixed-income households and moving to less frequent inspections and interim recertifications. The Newark Housing Authority spends a large percentage of administrative fees on work associated with mandatory annual recertification, annual unit inspections and rent, allowances and asset calculations. Local flexibility that maintains the integrity of the program while eliminating the need for high cost, low benefit work could save our agency vital resources. It is worth noting that many similar innovations have already been tested for years at MTW agencies throughout the country. Many MTW agencies have adopted less-frequent recertifications for their fixed-income households and have found that it not only produces less stress for their residents, but also significantly reduces their administrative burden.

Some MTW agencies have been able to streamline their inspection process, grouping inspections geographically to save travel time and costs. Allowing housing authorities to use a risk-management approach to conducting inspections, rather than tying them to arbitrary annual deadlines, will help relieve housing authorities of a sometimes redundant administrative burden, while still ensuring that families are housed in safe and decent housing. Also, allowing housing authorities to rely on inspections from governmental agencies further simplifies a complicated inspection

process and allows localities to rely on one standard for guaranteeing the suitability and safety of area housing. CLPHA previously testified in support of these changes in SEVRA and SESA.

Additional ways of streamlining administrative processes and reducing administrative burden and costs include additional simplification of the rent calculation process (even beyond what is included in SESA), allowing flexibility with regard to re-inspections, and allowing the development of local wait-list policies. These are all areas in which Moving to Work agencies have been developing local policies, to meet their statutory objective of “reducing cost and achieving greater cost effectiveness in Federal expenditures.” Congress would do well to look to MTW agencies for further ideas about administrative streamlining.

Rental Assistance Demonstration (RAD)

CLPHA’s objective for a rental assistance demonstration was straightforward. As MTW helps housing authorities in their public and affordable housing preservation strategies, we were seeking to preserve the existing housing stock through the funding flexibility and funding leverage that MTW offers. For this reason, we proposed and supported the Rental Assistance Demonstration (RAD)—a conversion option for public housing rental assistance to project-based vouchers (PBV) or project-based rental assistance contracts (PBRA) that will enable greater funding flexibility and leveraging. CLPHA worked alongside other stakeholders to help Congress enact RAD last year as a demonstration program to preserve this important affordable housing stock.

We see this initial version of RAD as the first step in converting public housing subsidies to leverage additional capital investment and address the nearly \$26 billion capital backlog of our public housing stock. The current no-cost model that authorizes conversions to PBV and PBRA is an important step forward, but will only go so far in addressing a segment of the portfolio. Furthermore, a recent industry-funded research report by Recap Real Estate Advisors makes clear the critical need for adequate RAD funding in order to provide conversion and recapitalizing opportunities to a larger pool of public housing properties.

With no funding to support this first iteration of the demonstration, CLPHA appreciates the broad waiver authority from Congress to create the best program possible within the constraint of current public housing operating and capital subsidies. We believe this waiver authority is a critically important tool in order to ensure a successful demonstration program, and HUD should exercise its waiver authority to a greater extent than it proposes in the recently published Final Notice. In order to operate successfully under the no-cost RAD program and for housing authorities to be creative in their approaches, this flexibility is necessary. For example, the limitations on PBV conversions, including contract rent setting, the cap on the number of PBV units in a project, and the 12-month choice mobility constraint, all create a disincentive for housing authorities to pursue PBV conversions and undermines a critically important option in the demonstration program.

The current House AHSSIA draft proposal includes the original legislative draft language from the stakeholders’ coalition on RAD. It authorizes a demonstration program for the voluntary conversion of units currently assisted under the public housing or Section 8 moderate rehabilitation programs to a contract under either the Section 8 project-based voucher or project-based rental assistance programs, including the authorization of appropriations of \$30 million per year for 5 years of a demonstration. The additional funding is for supplemental costs of the first year of assistance, evaluation, technical assistance to housing authorities and tenant organizations, and other appropriate purposes.

It also authorizes properties assisted under the rent supplement program or the Section 236 rental assistance program to convert to project-based Section 8 renewal contracts, subject to the terms of Section 534 of MAHRAA, with authorization of appropriations of \$10 million per year for 5 years.

CLPHA strongly supports the RAD program and considers it an important tool for public housing preservation strategies. The additional funding authorization will help PHAs stabilize properties in markets where the current level of assistance and rents are not sufficient to address capital backlog needs and provide for long-term viability of the properties. We support the version of RAD in the AHSSIA bill, and strongly urge the Senate to include the RAD program in any legislative proposal.

Moving to Work Expansion

CLPHA has long been a strong supporter for a permanent expansion of a Moving to Work (MTW)-like program for any interested housing authority. The premise of MTW is simple, to allow PHAs to develop locally driven housing plans that respond to local housing needs, in concert with their residents and community stakeholders.

The current 35 MTW agencies administer over 131,000 public housing units and 307,500 Housing Choice Vouchers, or more than 12.5 percent of the current traditionally PHA-operated housing stock, in addition to operating local housing programs that fall outside the bounds of traditional models. A review of the current MTW agencies show that they have raised the standard of housing services, used program flexibility to create jobs, added affordable housing stock, served more households, and helped families build savings. They have also shown how to operate and manage affordable housing in ways that is accountable to their residents and local communities without needless and time-consuming bureaucratic measures that add costs but no value. Many administrative activities now universally accepted as good practice, providing cost-savings, are beneficial to residents, and are non-controversial were first tested in the laboratory of Moving to Work (MTW).

Instead of asking themselves “what do we need to do to make sure we score high on our next Section 8 Management Assessment Plan (SEMAP)?”, MTW agencies ask themselves, “where are the most profound needs in our community and what are we going to do to address them?” This fundamental shift in thinking has allowed MTW agencies from Cambridge, MA, to Atlanta, GA, to Seattle, WA, to solve problems in their communities more efficiently, more rapidly and with greater community participation than most non-MTW agencies could even imagine.

The strength of MTW is that it allows PHAs to customize their services to meet the unique challenges their communities face. For example, in the northwest and northeast, MTW PHAs are engaging with homeless service providers in ways unimaginable outside of MTW. The new sponsor-based housing is allowing the most difficult-to-house populations to find stable homes, with supportive services. Comprehensive, long-term services are being paired with PHA redevelopment efforts to create dynamic, place-based service centers where the most vulnerable households receive not just housing, but the intensive supports they need to keep from slipping back into homelessness. These are just a few examples of the amazing work going on at MTW agencies.

NHA is not designated as an MTW agency, however, in my previous role as Executive Director of the Pittsburgh Housing Authority, we were among the original group of agencies granted this broad range of flexibility. Having worked for 14 years under both circumstances, it is evident that the greatest advantage of MTW is the localized focus true regulatory flexibility affords. For example, in Pittsburgh we were able to utilize MTW to dramatically improve our housing stock, promote significant private investment, streamline our applicant waiting list process, promote programs for the homeless and create a social service endowment to consistently fund strong self-sufficiency programs.

On the other hand, without MTW in Newark, our focus has been predominately driven by regulatory scoresheets such as the Public Housing Assessment System (PHAS) and SEMAP. With both limited flexibility and funding, we spend more of our time focused on the timeliness of our PIC submissions, Asset Management Projects (AMP) and Central Office Cost Center (COCC) performance (financial performance of the central office and grouped sites), Voucher Management System (VMS) submissions, coordinating REAC inspection activities, along with dozens of other monthly, quarterly, and annual submissions.

In sum, if the Newark Housing Authority were designated a Moving to Work site, we would seek to create housing programs for the homeless, focus on prisoner re-entry and transitional housing. In addition, we would tackle extensive applicant wait-list issues and examine rent simplification, recertification and inspection processes for overall program efficiencies. Finally, we would utilize funding fungibility to create greater housing opportunities for our city’s most vulnerable populations.

However, we are aware that the MTW program is controversial among many housing advocates and engenders strong, negative, and emotional reactions due to misperceptions and misinterpretations of the program’s objectives, accounting, and results. Given the disparate views of proponents and critics of the program, we realized the best approach to try to resolve differences was to declare a period of détente, sit down with the differing parties, and attempt to work out a practical agreement on extending and expanding the program. The result was intensive, passionate, and focused deliberations between the stakeholders.

The stakeholder group representatives included tenant advocates, civil rights advocates, housing authorities, assisted housing owners, and HUD. In a remarkable undertaking with no issue too minor or nuanced for consideration, the stakeholder group produced a set of guidelines culminating in the “MTW Expansion Principles and Proposals”, along with a legislative draft incorporating those guidelines, that was agreed upon by all the parties involved. The stakeholder agreement provides for a permanent basic and enhanced MTW program; a robust evaluation; new development tools; and resident protections.

Included with my written comments for the record is a copy of those principles (Attachment 1) and legislative draft (Attachment 2).

Closing

In closing, even as we work to improve the housing choice voucher program, we must not forget the continuing challenges faced by the shortage of public and other affordable housing. There is still an urgent need to preserve and increase the supply of housing units specifically dedicated to those most in need. Once again, CLPHA urges this Committee to work to provide additional resources and tools to enable PHAs to preserve our public housing stock and increase the supply of housing affordable to very low-income households.

We appreciate the Subcommittee's perseverance and willingness to continue to tackle the reforms needed in HUD's rental housing assistance programs. We look forward to working with you and HUD on making additional improvements to the programs and developing reform legislation.

Thank you again for this opportunity to testify.

Attachment - 1

Summary of Moving to Work Proposal

Moving to Work (MTW) was established in 1996 to test innovative ways of administering rental housing programs that would permit localities to better address the needs of their communities by promoting flexibility. The program has been a demonstration program since that time.

The proposal is designed to incorporate the fundamental framework of MTW that rewards and encourages innovation by public housing agencies while ensuring that residents are not unduly rent burdened. The proposal would provide clear eligibility and admission criteria for housing agencies along with solid tools to permit the important evaluation of performance and results.

New Approach

Like the provisions of the current AHSSIA discussion draft, the Moving to Work program would be made permanent under this proposal. Current MTW agencies would continue to operate their programs as provided by their existing contracts for the remaining term of their contracts but could convert to the "new" MTW program on request.

The "new" MTW would have two components: 1) a basic MTW program that provides housing agencies with the flexibility to combine voucher, capital and operating funds as well as implement rent simplification and other administrative streamlining measures and 2) an "enhanced" MTW program would include the elements of the basic MTW program but would also permit a limited number of agencies to undertake major rent reform initiatives, work requirements and time limits with a focus on rigorously evaluating the impacts of these activities.

To encourage a broad range of PHAs to apply, the number of housing authorities that are accepted into the basic MTW program would not be limited, but the number of units generally would be capped at 500,000 units, however, if any of the three largest housing agencies or any existing MTW PHAs join the program, their units would not affect the cap. Housing authorities applying for the "enhanced" MTW designations would be capped at 25 agencies; existing MTW PHAs could join this program as well without counting towards the cap.

Protecting Both Residents and Federal Funds

The proposal provides that only high capacity PHAs will be admitted to the MTW programs and prevents the waiver of key provisions of the U.S. Housing Act. The proposal is designed to ensure that the participating housing agencies continue to serve substantially the same number of families being served prior to being accepted into the MTW program, but with flexibility to allow PHAs to temporarily use funds for major capital improvements, services and other initiatives. Further, the housing agency seeking to apply for MTW must hold at least two public meetings to solicit community and resident input. Technical assistance funds will be available for resident groups to participate in the process.

Evaluation and Enforcement

An advisory group of interested stakeholders will be formed to work with HUD to establish methodologies for evaluation of both the basic and enhanced MTW program as well as analyze findings and make recommendations. Interim reports from HUD will be required.

HUD will be directed to design and implement enforcement mechanisms (including termination) for material noncompliance.

MTW Expansion Principles and Proposals

Issue ¹	Principles	Proposals
Existing MTW Agencies	MTW PHAs will not be required to change the terms of their agreements in light of new MTW legislation.	<ul style="list-style-type: none"> Existing MTW agreements will remain closed, and none of the requirements governing basic or enhanced MTW in this legislation will apply during the period of the agreement. Existing agencies may opt into either the basic or enhanced MTW program without going through the regular admissions process and without counting against the caps so long as they comply with the requirements of the respective programs.
Flexibility in Use of Funds	MTW PHAs will have full funding fungibility.	<ul style="list-style-type: none"> PHAs in both basic and enhanced MTW will be permitted to combine voucher, capital and operating funds.
Impact on Program Funding	Funding will not be impacted by virtue of participation in MTW.	<ul style="list-style-type: none"> Funding for a PHA will neither increase nor decrease by virtue of its participation in basic or enhanced MTW.
Policy Flexibility: Basic MTW	Basic MTW PHAs will have funding and administrative flexibility, but will not have flexibility related to time limits, work requirements or major rent reform.	<ul style="list-style-type: none"> The Secretary may approve requests by an agency to waive provisions of the US Housing Act (but not including the retained provisions; see attached) if the Secretary determines that such a waiver would further the goals and objectives of the demonstration. This can include waiver requests not identified in the initial application. Basic MTW PHAs may undertake rent simplification, but in undertaking these reforms may not increase rents to the point that they are not affordable for assisted tenants (see definition of assisted family, below). Basic MTW PHAs may not implement time limits or work requirements.
Policy Flexibility: Enhanced MTW	Only enhanced MTW PHAs will be permitted to test time limits, work requirements, and major rent reform as part of a rigorous evaluation.	<ul style="list-style-type: none"> Enhanced MTW PHAs will be distinguished from basic MTW PHAs by their ability to implement substantial rent reform, work requirements and time limits. Enhanced MTW PHAs will be subject to additional reporting requirements for the above activities, and HUD will conduct a rigorous, controlled evaluation of these interventions using random assignment of participants into treatment and control groups.

¹ The principles and proposals apply to both basic and enhanced MTW unless otherwise indicated.

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Evaluation	<p>MTW will be rigorously evaluated, with a focus on the activities only available to enhanced MTW, and in consultation with an advisory group. Basic MTW PHAs will participate in a separate assessment with more streamlined reporting requirements.</p>	<ul style="list-style-type: none"> • PHAs will only be admitted into enhanced MTW insofar as they are willing and able to participate in this evaluation, contingent upon both PHA resources and HUD resources. HUD will clarify prior to admission the expectations and requirements of enhanced MTW by virtue of their participation in the evaluation. • A rigorous evaluation will be an integral component of enhanced MTW, particularly for the activities that distinguish enhanced MTW from basic MTW (i.e. rent reform, time limits and work requirements) • An advisory group (with the types of participants to be specified) will assist HUD in establishing methodologies for evaluation of the basic and enhanced programs, analyzing findings and making recommendations. • In consultation with HUD, the evaluation advisory committee and their local communities, PHAs will develop a plan for the type(s) of activities to test and the evaluation strategy • HUD will provide interim reports to Congress at specified intervals: at three years in order to report on progress in establishing the new program and initiating evaluation, at six years in order to report on interim results and at nine years in order to provide final conclusions and recommendations. Based on interim findings, HUD and the evaluation advisory committee may identify and recommend for modification or termination activities that are shown to have harmful consequences, or they may recommend for further testing any promising interventions. PHAs may voluntarily terminate any activities. • Basic MTW PHAs will report on activity outcomes, and HUD will monitor and report on the outcomes of the program. Basic MTW PHAs will have generally streamlined reporting requirements and HUD will investigate and include in an evaluation any innovative activities undertaken by basic MTW PHAs. • Authorization for funding for the evaluation[s] should be included in the legislation, and HUD shall to the extent possible use these funds to defray the costs of evaluation for participating PHAs.
Numbers and Timing	<p>Basic MTW will be expanded to up to 500,000 units, with up to 25 PHAs</p>	<ul style="list-style-type: none"> • HUD will admit PHAs into the basic and enhanced MTW programs with a combined public housing and voucher total of approximately (but no more

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	<p>from this group participating in the enhanced MTW program. Neither existing MTW PHAs nor the largest non-MTW PHAs will count towards the unit cap in basic MTW, and existing MTW PHAs will not count towards the PHA count in enhanced MTW.</p>	<p>than) 500,000 units, with HUD admitting as many PHAs under this cap as is reasonably possible.</p> <ul style="list-style-type: none"> • Up to 25 of the PHAs admitted into basic MTW may participate in the enhanced MTW demonstration in order to have a sufficient number of families participating in an evaluation. A portion of the 25 slots may be designated for small PHAs. • Existing MTW PHAs will be eligible to participate in either basic or enhanced MTW. • If any of the PHAs with more than 50,000 units is admitted into basic MTW, their units would not be counted towards the overall unit cap. However, if they were admitted into enhanced MTW, they would count towards the PHA cap. • If any existing MTW PHAs are admitted into basic or enhanced MTW, their units would not be counted towards the overall unit cap in basic MTW, nor would they count towards the agency cap in enhanced MTW. • Consortia or other arrangements of PHAs that involving formalized partnerships (e.g. MOUs) may be admitted to the demonstration. All of the units administered by the participating PHAs will count towards the unit cap in basic MTW, but a consortium will occupy only one available PHA slot in enhanced MTW. The consortia or partnerships do not need to be formalized in advance of submitting an application. • Voucher-only and public housing-only agencies may be admitted to the demonstration.
<p>Retained Provisions of U.S. Housing Act</p>	<p>Several provisions of the U.S. Housing Act will continue to apply to MTW PHAs, including a requirement for deep income targeting.</p>	<ul style="list-style-type: none"> • HUD may not waive specified retained provisions of the US Housing Act (same provisions as in H.R. 1209 (with some edits; see attached) on behalf of participating basic or enhanced MTW PHAs. • As part of adhering to the retained provisions, basic and enhanced MTW PHAs will be required to maintain the same admissions targeting rate on a portfolio-wide basis that would be required under QHWRRA based on the blended proportion of public housing and vouchers in their portfolio.
<p>Definition of Assisted Family</p>	<p>Only families receiving certain housing assistance will count as assisted.</p>	<ul style="list-style-type: none"> • In order to be counted as an assisted family, a family receiving rental assistance from the PHA may fall into any of the following categories: <ul style="list-style-type: none"> • Any family that counts as assisted within the existing regulations for

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<p>Baseline Number of Families Served</p>	<p>The baseline number of families served will be the number of utilized vouchers and occupied public housing units prior to admission, adjusted over time for changes to the portfolio.</p>	<p>public housing and vouchers (taking into account the potential for changes to these laws in the future), or</p> <ul style="list-style-type: none"> Any eligible family paying less than or equal to 28% of gross, as well as any additional payment required by virtue of living in a unit that costs more than the payment standard (for tenant-based vouchers), or Any eligible family that is one of a set of households whose average rent burden does not exceed the average rent burden of families assisted by the PHA in the year prior to program admission or the average rent burden at non-MTW PHAs in the MSA or one or more surrounding counties closest to where the PHA is located, or For enhanced MTW PHAs only, any eligible family who pays a higher rent burden as part of an approved rent reform activity <ul style="list-style-type: none"> Any eligible family living in an affordable unit (as defined in the above bullets) containing a significant use of MTW funds (not necessarily rental assistance) may also be counted as assisted.
<p>Serving Substantially the Same Number of Families</p>	<p>MTW PHAs will be required to serve substantially the same number of families over time, though HUD may approve temporary exceptions for certain approved activities.</p>	<ul style="list-style-type: none"> The baseline for the voucher program in the initial year is the number of vouchers utilized in the calendar year prior to entry. For public housing, the baseline in the initial year is the average of occupied units in the calendar year prior to entry. The baseline will be adjusted on an annual basis to account for new units, units coming offline for modernization, units returning to the portfolio after undergoing modernization, HCV transfers, demolition/ disposition, incremental vouchers awarded and other increases or decreases to the portfolio that impact funding. A three-year average of utilization or occupancy may be used when appropriate to account for extenuating circumstances. PHAs will be required to assist 98% of their baseline number of families (on a portfolio-wide basis). Any use of funds that still allows them to serve at least 98% of the baseline number of families is not subject to additional approval from HUD. HUD may temporarily approve reductions in the number of families a PHA is required to serve below the 98% threshold for two categories of activities. In combination, any approved reductions cannot exceed the household

		<p>equivalent of 15% of the voucher baseline in any year.</p> <ul style="list-style-type: none"> ○ With HUD approval, PHAs may reduce the number of families they are required to serve by up to the household equivalent of 10% of the voucher baseline in order to make funding available for housing choice, mobility and homelessness initiatives, as well as services designed to improve outcomes for assisted residents. ○ With HUD approval, PHAs may reduce the number of families they are required to serve by up to the household equivalent of 15% of the voucher baseline (inclusive of any other approved reductions) in order to make funding available for capital development, repositioning and preservation for units that will eventually house eligible families that pay affordable rents, as defined above. Incentives to leverage other sources of funds will be retained. <ul style="list-style-type: none"> ● At the end of the period approved by HUD for reduction in the number of families served to make funding available for housing choice, mobility or homelessness initiatives or to improve other outcomes for assisted residents, agencies must submit a final report on the impacts of the initiative, including the benefits and costs. A PHA that wishes to continue such an initiative accompanied by a reduction from the requirement to assist 98% or more of the baseline number of families must go through a public and resident comment process, which may be part of the regular PHA plan process. HUD may disapprove extension of permission to reduce the number of families "assisted" if the reported data do not show positive outcomes or the PHA has not demonstrated the need for the requested reduction to support the added costs of the interventions, including evidence that the PHA has made reasonable efforts to obtain other funding for the interventions. ● After policies permitted only under the "enhanced" component of the program are evaluated, "enhanced" PHAs that wish to continue the policies must share the evaluation results and their reasons for proposing to continue the policy as part of a public and resident comment process. This may be done as part of the regular PHA plan process. HUD may disapprove continuation of such policies if the evaluation does not show benefits such as significant
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		<p>improvements in family incomes, other indicia of increased economic security, or other benefits to assisted families or families on the waiting list that outweigh evidence of increased hardships and any increased cost per household. In making its decision, HUD should consult with the evaluation advisory group. HUD must make its decisions and rationale public.</p> <ul style="list-style-type: none"> • HUD review and approval requirements for the above activities will be commensurate with the proposed level of reduction in the number of families served and the potential impact of the activity. • HUD may use an alternate standard for approving reductions in the number of families that must be served (other than the household equivalent of a percent reduction in the voucher baseline) for PHAs whose public housing portfolio is larger than the voucher portfolio. • HUD will make public information related to approving reductions in the number of families that must be served (other than the household equivalent of a percent reduction in the voucher baseline) for PHAs whose public housing portfolio is larger than the voucher portfolio. • HUD will make public information related to each PHA's compliance with the requirement to serve substantially the same number of families, including approved reductions to the level that each PHA must maintain, on an annual basis. • Determination of default and sanctions for failure to serve substantially the same number of families will take into account funding shortfalls or other unforeseeable and unavoidable extenuating circumstances. • Enhanced MTW PHAs will be subject to the same policy as basic MTW PHAs regarding serving substantially the same number of families.
<p>Admissions Criteria</p>	<p>Only high capacity PHAs will be admitted.</p>	<ul style="list-style-type: none"> • Only "high capacity" agencies with at least 95% voucher utilization and 95% public housing occupancy (as an average of the previous calendar year), as well as other factors deemed appropriate, will be admitted. <ul style="list-style-type: none"> • Basic criteria for "high capacity" (in addition to 95% utilization and occupancy) will be outlined in statute, and HUD will propose a definition through notice that would be published for public comment before becoming effective. • A draft notice will be made available for public comment relating to admissions criteria and preferences in the initial year and prior to any changes. • Criteria to define high capacity may include: <ul style="list-style-type: none"> o Designated high performer in PHAS and SEMAP (though not as

		<p>threshold criteria)</p> <ul style="list-style-type: none"> ○ Demonstrated experience with innovative activities and programs (e.g. participating in HOPE VI or Choice Neighborhoods, using tax credits, participating in FSS, having an EPC, creating affordable housing, partnering with other organizations to provide services) ○ Staff capacity and experience ○ Evidence of resident and community involvement ○ Evidence of community support for the MTW application (consistent with H.R. 1209; see next row) ○ Compliance with specified reporting requirements ○ In good standing with the Department, including no unresolved Fair Housing or other findings ○ Good stewards of existing grants ○ Creating internal administrative efficiencies or engaging in program efforts that result in savings (e.g. energy) or increased revenue (e.g. rent revenue above the national average) for the PHA ○ Managing projects or engaging in activities using non-HUD funding sources, such as developing housing using tax credits or entering into agreements with others for services or other resident support actions <ul style="list-style-type: none"> • A diverse range of PHAs (in terms of size, geography, etc.) will be selected. For enhanced MTW, this may include a different set of features that better informs the evaluation, such as local markets and unemployment rates. • HUD may specify admissions preferences for PHAs that have certain features or that are willing to test policies of interest, subject to public comment.
Public Process	PHAs must consult with local stakeholders prior to submitting an application.	<ul style="list-style-type: none"> • A PHA submitting a proposal must hold at least two public meetings to receive comments on the proposal, including the implications of changes and the possible impact on residents. The PHA must provide notice to residents and the local community no later than 30 days before the first of the two public meetings.
Resident Technical	Funding for resident technical assistance and	<ul style="list-style-type: none"> • Funding will be provided for resident technical assistance and capacity building, consistent with the language in H.R. 1209 with revisions to address

<p>Assistance/ Capacity Building</p>	<p>capacity building will be offered, subject to appropriations.</p>	<p>the following issues in the section regarding criteria for awards of funds:</p> <ul style="list-style-type: none"> o Partnerships of multiple tenant organizations will be eligible to receive grants. o Expand the definition of "have a demonstrated capacity to manage similar grants" to include: have a demonstrated capacity to manage similar grants or partner with another organization with such experience, who can be a fiduciary partner/who may have the "similar" experience. • In addition to any authorized funds, all of the \$25 per unit for resident TA/capacity building will be directed towards a TA pool if there is no resident organization receiving those funds at the PIA. • HUD shall develop and apply enforcement standards (subject to public comment) regarding violation of the requirement to assist substantially the same number of families. • An agency can terminate its participation at any time on its own prerogative.
<p>Enforcement: Sanctions, Termination and Default</p>	<p>HUD will enforce the requirement to serve substantially the same number of families.</p>	

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TITLE IV—FLEXIBILITY FOR HIGH-CAPACITY PUBLIC HOUSING AGENCIES**SEC. 401. FLEXIBILITY FOR HIGH-CAPACITY HOUSING AGENCIES.**

Title I of the United States Housing Act of 1937 (42 U.S.C. 1437 et seq.) is amended by adding at the end the following new section:

“SEC. 37. FLEXIBILITY FOR HIGH CAPACITY HOUSING AGENCIES.

“(a) **PURPOSE.**—Consistent with section 2001)(C) of this title, the purpose of this section is to vest in public housing agencies that perform well the maximum amount of responsibility and flexibility in program administration, with appropriate accountability to public housing residents, localities, and the general public, by establishing a program under which public housing agencies are given the flexibility to design and implement, and the Secretary is given the responsibility to facilitate and evaluate, innovative approaches to providing housing assistance that—

“(1) increase housing opportunities for low-, very low-, and extremely low-income families, including preserving, modernizing, rehabilitating, reconfiguring, or replacing public housing at risk of physical deterioration or obsolescence, developing additional affordable housing, providing supportive housing, and increasing the number of families receiving tenant-based rental assistance and their housing choices;

“(2) provide financial incentives and other support mechanisms to families to obtain employment, increase earned income, and achieve economic self-sufficiency, while protecting very low- and extremely low-income families from excessive rent burdens;

“(3) utilize funds in a more effective or cost-efficient manner, including achieving energy, administrative, and other cost savings, or increasing revenues;

“(4) leverage other Federal, State, and local funding sources, including the low-income housing tax credit program and other private resources, to expand and preserve affordable housing opportunities, and foster partnerships between public housing agencies and service providers in fields such as health care and education to streamline service delivery, identify potential cost savings across programs, and improve health and educational opportunities for low income families;

“(5) test alternative rent-setting and continued occupancy policies to determine whether rent determinations can be simplified, administrative cost savings can be realized, and effective incentives provided, while protecting very low- and extremely low-income families from excessive rent burdens, and conducting a rigorous evaluation to test the effectiveness of such innovative approaches; and

“(6) are developed with the support of the local community and with the substantial participation of affected residents.

“(b) SELECTION PROCESS—

“(1) **TIMING AND OPPORTUNITY FOR COMMENT.**—The Secretary shall, within 9 months after the date of the enactment of the Affordable Housing and Self-Sufficiency Improvement Act of 2012, make a draft notice available for public comment with the proposed selection criteria and preferences for selection of public housing agencies to participate in the program under this section. Initial selection of participating agencies shall be made within 12 months of issuance of the final selection notice. Prior to any change in selection criteria and preferences in subsequent years, the Secretary shall also make a draft notice available for public comment.

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"(2) PROPOSALS; CRITERIA.— Selection of agencies under this section shall be made by the Secretary pursuant to a competitive process that advances the purposes specified in subsection (a) and meets the following requirements:

"(A) HIGH-CAPACITY PUBLIC HOUSING AGENCIES.— The Secretary shall make selections based on proposals from high-capacity public housing agencies, which shall mean any agency that—

"(i) in the calendar year prior to its application, had a public housing occupancy rate of at least 95 percent and utilized not less than 95 percent of its funds allocated for assistance under section 8(o) for that calendar year or 95 percent of its authorized vouchers, and—

"(ii) that is a high performer under the public housing assessment system (if the agency administers public housing) and the section 8 management assessment program (if the agency administers vouchers under section 8), or

"(ii) taking into account its relative score under the public housing assessment system and the section 8 management assessment program, is an agency with other characteristics, achievements, capabilities, or experience identified by the Secretary based on criteria established through a notice made available for public comment, that demonstrate the agency has the capacity to successfully exercise the discretion and undertake the responsibilities made available by this section.

"(B) DIVERSITY OF PLANS.—The process provides, to the extent possible based on eligible agencies submitting proposals, for representation among agencies having various characteristics, including both large and small agencies, agencies serving urban, suburban, and rural areas, and agencies in various geographical regions, housing markets and labor markets throughout the United States, and which may include the selection of agencies that only administer the voucher program under section 8(o) or the public housing program, and for representation by consortia or other partnerships of any such agencies which are formed for the purpose of implementing coordinated policies across jurisdictions and producing administrative savings which can be redirected to other eligible purposes under this section. The Secretary shall determine the necessary requirements for such consortia or other partnerships.

"(C) NOTICE TO RESIDENTS AND COMMUNITY.—Any agency submitting a proposal under this paragraph shall have provided notice to residents and the local community not later than 30 days before the first of the two public meetings required under subparagraph (D).

"(D) PUBLIC MEETINGS.—An agency submitting a proposal shall hold two public meetings to receive comments on the agency's proposed application, on the implications of changes under the proposal, and the possible impact on residents. Any written comments submitted by residents or members of the public concerning the agency's proposal shall be submitted as part of the agency's application.

"(E) IDENTIFICATION OF OBSTACLES TO ACHIEVEMENT OF GOALS.—Each proposal shall identify obstacles in the public housing or voucher programs, including statutory provisions and existing rules and regulations, that impede achievement of the goals and objectives of the proposal and the purposes of the demonstration, a statement of the alternative policies designed to address such obstacles, and an explanation of why exemption from such statutory provisions, regulations, or other requirements is necessary to achieve such goals and objectives.

"(F) INFORMATION FOR EVALUATION.—Each proposal shall include baseline information, as the Secretary deems necessary in consultation with the Advisory Council for

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the evaluation under subsection (g), on the characteristics, condition, and funding of the housing units, housing assistance, and other services the agency provides, including a physical needs assessment with respect to the agency's public housing, if any.

³(3) LIMIT ON PARTICIPATION.—Pursuant to the process described in paragraphs (1) and (2), the Secretary shall select a number of agencies to participate such that the total number of public housing units and vouchers subject to this section is, upon such agencies' initial selection, limited to approximately, but no more than, 500,000 public housing units and vouchers, with the Secretary selecting as many agencies at a time as is reasonably possible, except that if any agency with a total of more than 50,000 public housing units and vouchers is selected, or any agency participating in the demonstration under section 204 of Public Law 104-134 enters the program under this section, then such an agency's public housing units and vouchers shall not count toward such limitation.

⁴(4) MAINTAINING PARTICIPATION RATE.—If, after selections for program participation by the Secretary reach the limit on participation under paragraph (3), the number of public housing units and vouchers subject to this section falls below the number selected pursuant to such paragraph—

⁵(A) at any time prior to submission of the interim report pursuant to subsection (g)(4)(B)(iii), the Secretary shall promptly solicit applications from and select additional public housing agencies to participate in the program under the terms and conditions for application and selection provided in this section so that the number of public housing units and vouchers is increased to the number authorized by paragraph (3); and

⁶(B) at any time after the submission of such report, the Secretary may select such additional agencies, giving due consideration to the potential for such expansion to advance the purposes set forth in subsection (a).

⁷(c) WAIVERS.—

⁸(1) IN GENERAL.—As part of its application under subsection (b)(2), an agency shall submit a proposed annual plan for the agency's first year of operations under the program under this section that meets the requirements of subsection (d)(7)(B) and that includes a description of the statutory and regulatory waivers necessary to implement the plan, consistent with the agency's proposal under subsection (b)(2)(E). Upon selection of the agency for participation, the Secretary shall review and approve such plan in accordance with subsection (d)(7)(D). In subsequent years, the agency may obtain additional waivers through its annual plan in accordance with subsection (d)(7). Notwithstanding any other provision of this section, families receiving assistance under this section shall retain the same rights of judicial review of agency action as they would otherwise have had if the agency were not participating in the program.

⁹(2) CONTRACT AMENDMENT.—After selecting agencies under subsection (b), the Secretary shall promptly amend the applicable annual contributions contract of each such agency to provide that the agency is participating in the program under this section and that the agency may request and implement a waiver of any provision of this Act or regulations promulgated under this Act (except for retained provisions under subsection (d)(4)) through its annual plan under subsection (d)(7), without specifying such waivers in such contract amendment. An agency may terminate its participation under this section at any time upon reasonable notice to the Secretary.

¹⁰(d) PROGRAM REQUIREMENTS.—

¹¹(1) PROGRAM FUNDS.—A participating agency may combine amounts provided to the agency from the Operating Fund under section 9(c), amounts provided to the agency from the Capital Fund under section 9(d), and amounts provided to the agency for voucher assistance (including administrative fees) under section 8(o) and may use such program funds for any activities that are authorized by section 8(o) or 9, for other housing for assisted families, or for any other activities that are not inconsistent with this section, as determined by the Secretary.

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“(2) FAMILIES SERVED.—

“(A) IN GENERAL.— In carrying out its program under this section, each participating agency shall continue to assist the number of eligible low-income families equal to its assisted family baseline, except as permitted under subparagraph (B).

“(B) PERMITTED REDUCTIONS.—

“(i) An agency may, at its option, reduce the number of assisted families it serves by up to 2 percent of its assisted family baseline, but only if it uses the funds resulting from such reduction for eligible purposes under this section.

“(ii) An agency may, with the Secretary’s approval—

“(I) reduce the number of assisted families it serves by up to 10 percent of the household equivalent of its voucher baseline (inclusive of the reduction under clause (i)), but only if the agency uses the funds resulting from such additional reduction for housing choice and mobility initiatives, homelessness initiatives, or supportive services designed to improve outcomes; and

“(II) reduce the number of assisted families it serves by up to 15 percent of the household equivalent of its voucher baseline (inclusive of the reductions under clause (i) and subclause (I) of this clause), but only if the agency uses the funds resulting from such additional reduction for capital activities to serve assisted families.

“(C) APPROVAL OF REDUCTIONS.—The Secretary’s level of review and approval of an agency’s request to reduce the number of families served below its assisted housing baseline shall be commensurate with the level of the reduction proposed and the potential impact on assisted families and on the agency’s housing stock for assisted families (including tenant-based rental assistance). The Secretary shall—

(i) in the case of reductions under subparagraph (B)(i)(I), approve such reduction in the amount and duration proposed by the agency, unless they are greater than reasonably necessary to determine whether the proposed activity is successful and cost effective; and

(ii) in the case of reductions under subparagraph (B)(i)(II), approve such reduction in the amount and duration proposed by the agency unless they are greater than reasonably necessary to complete the capital activity proposed, provided that such reductions shall be proposed and approved on a project-by-project basis.

In determining the reasonableness of a proposed reduction under subclause (i) or (ii), the Secretary shall consider efforts made by the agency to secure contributions of funding or other resources to supplement the program funds to be used for the proposed activities and the ability of an agency to leverage such contributions through a proposed reduction, or if the agency did not make such efforts, its reasons for not doing so; provided, however, that the Secretary shall not require an agency to secure such contributions as a condition for approving a permitted reduction.

“(D) ALTERNATE MEASURE FOR REDUCTIONS.—With respect to permitted reductions under subparagraph (B)(ii), the Secretary may use the household equivalent of an agency’s public housing baseline in place of the household equivalent of an agency’s voucher baseline for agencies that have significantly more public housing units than vouchers.

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“(E) CONTINUATION OF PERMITTED REDUCTIONS.—At the end of the period approved by the Secretary for a permitted reduction under subparagraph (C)(i) for an agency, the agency shall submit a final report on the impacts of the initiative funded with such reduction, including the benefits and costs, and other information reasonably required by the Secretary in consultation with the Advisory Council under subsection (g)(3), which may include a physical needs assessment and information concerning services provided by the agency. If the agency wishes to continue such an initiative accompanied by a continuation of a permitted reduction, then the agency shall complete a public and resident comment process, which may be part of the plan process under paragraph (7). The Secretary may disapprove such continuation if the reported data do not show positive outcomes of the agency has not demonstrated the need for the requested reduction to support the added costs of the interventions, including evidence that the agency has made reasonable efforts to obtain other funding for the interventions.

“(F) ENFORCEMENT OF THE NUMBER OF FAMILIES SERVED.—The Secretary shall develop, through rulemaking or other method that affords the opportunity for public comment, enforcement standards, including appropriate funding reductions, regarding the requirement under subparagraph (A) for a participating agency to assist a number of families at least equal to its assisted family baseline in a given year (subject to any permitted reductions).

“(G) DEFINITIONS.—For purposes of this section, with respect to any participating agency—

“(i) the term ‘assisted family baseline’ means the agency’s public housing baseline plus the agency’s voucher baseline;

“(ii) the term ‘public housing baseline’ means the number of public housing units occupied in the calendar year preceding the agency’s first year operating under this section, with appropriate adjustments for reductions in units pursuant to section 18 and for units unavailable for, or becoming available after, modernization or replacement;

“(iii) the term ‘voucher baseline’ means the number of vouchers utilized in the calendar year preceding the agency’s first year operating under this section, with appropriate adjustments for voucher transfers, incremental vouchers awarded, and other increases or decreases in the number of vouchers available to the agency not resulting from funding proration, and

“(iv) the Secretary may use a three-year average of utilization or occupancy to account for extenuating circumstances.

“(3) ASSISTED FAMILIES.—

“(A) DEFINITION.—For purposes of this section, the term ‘assisted families’ includes any eligible low-income family that was counted in determining the agency’s compliance with subsections (a)(2)(A) and (b)(1) of section 16, as modified under paragraph (4)(A) of this subsection, and which—

“(i) receives rental assistance from program funds of the agency, and

“(ii)(aa) pays no more than that permitted under section 3 or 8(o) for rent (including the amount allowed for tenant-paid utilities),

“(ii)(bb) pays no more than 28 percent of gross income (and, for families receiving tenant-based rental assistance, any amount in excess of the payment standard subject to the rules applicable under section 8(o) for establishing and

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implementing such payment standards for agencies that do not participate in the program under this section) for rent (including the amount allowed for tenant-paid utilities), or

“(cc) is one of a set of families whose average rent burden (based on the average of each family’s share of the gross rent compared to its income) does not exceed the average rent burden of families assisted by the agency in the calendar year prior to its participation under this section or of families assisted by other agencies that are not participating in the program under this section in the same metropolitan statistical area or one or more surrounding counties closest to the area served by the agency;

“(ii) does not receive rental assistance but otherwise satisfies the standards of item (aa), (bb), or (cc) of clause (i)(II) and occupies a housing unit in a development with respect to which the agency makes or has made a significant use of program funds; or

“(iii) receives rental assistance from the agency that does not satisfy the standards of item (aa), (bb), or (cc) of clause (i)(II), but occupies a unit that is included in the evaluation of enhanced policies under subsection (d).

“(B) HARDSHIP POLICY.—If an agency implements a rent policy under which compliance with the requirement in paragraph (2) (relating to families served) is determined using the definition in item (bb) or (cc) of clause (i)(II) of subparagraph (A) of this paragraph, the agency shall, as part of its annual plan and report under subsection (d)(7), adopt and implement a hardship policy

“(4) RETAINED PROVISIONS.—Notwithstanding any other provision of this section, the Secretary may not waive, and each agency shall comply with, the following provisions of this Act:

“(A) Subsections (a)(2)(A) and (b)(1) of section 16 (42 U.S.C. 1437n) relating to targeting for new admissions in the public housing and voucher programs), based on the requirements applicable to the program for which funds were appropriated. The Secretary may calculate a blended targeting rate, required for assistance that combines funds appropriated under sections 8 and 9, based on the ratio of units assisted under sections 8 and 9 in an agency’s baseline.

“(B) Section 2(b) (42 U.S.C. 1437(b)), relating to tenant representatives on the public housing agency board of directors)

“(C) Section 3(b)(2) (42 U.S.C. 1437a(b)(2)), relating to definitions for the terms ‘low-income families,’ ‘very low-income families,’ and ‘extremely low-income families’).

“(D) Section 5A(e) (42 U.S.C. 1437c-1(e)), relating to the formation of and consultation with a resident advisory board)

“(E) Sections 6(f)(1) and 8(o)(8)(B) (42 U.S.C. 1437d(f)(1), 1437f(o)(8)(B)), relating to compliance of units assisted with housing quality standards or other codes)

“(F) Sections 6(o)(3), 6(c)(4)(i), and 8(o)(6)(B) (42 U.S.C. 1437d(o), 1437f(o)(6)(B)), relating to rights of public housing applicants and procedural rights for applicants under section 8(o)).

“(G) Section 6(k) (42 U.S.C. 1437d(k)), relating to grievance procedures for public housing tenants) and procedural rights for families assisted under section 8(o)(6)(B).

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“(H) Section 6(l) (42 U.S.C. 1437d(l), relating to public housing lease requirements), except that for units assisted both with program funds and low-income housing tax credits, the initial lease term may be less than 12 months if required to conform lease terms with such tax credit requirements

“(I) Section 7 (42 U.S.C. 1437e; relating to designation of housing for elderly and disabled households), except that a participating agency may make such designations (at initial designation or upon renewal) for a term of up to 5 years if the agency includes in its annual plan under subsection (d)(7) an analysis of the impact of such designations on affected households and such designation is subject to evaluation. Any participating agency with a designated housing plan in effect at the time of approval for participation in the program under this section may continue to operate under the terms of such plan for a term of 5 years (with an option to renew on the same terms for an additional 5 years) if it includes in its annual plan an analysis of the impact of such designations on affected households.

“(J) Subparagraphs (C) through (F) of section 8(o)(7) and section 8(o)(20) (42 U.S.C. 1437f(o); relating to lease requirements and eviction protections for families assisted with tenant-based assistance)

“(K) Section 8(o)(13)(B) (42 U.S.C. 1437f(o)(13)(B); relating to a percentage limitation on project-based assistance), except that for purposes of this subparagraph such section shall be applied by substituting ‘50 percent’ for ‘20 percent’, and all voucher funding that is used for non-tenant based assistance purposes shall count towards this calculation.

“(L) Section 8(o)(13)(E) (42 U.S.C. 1437f(o)(13)(E); relating to resident choice for tenants of units with project based vouchers), except with respect to—

“(i) not more than 10 percent of the vouchers available to the participating agency upon entering the program under this section; and

“(ii) any project-based voucher program that is subject to evaluation.

Notwithstanding the exceptions under this sub-paragraph, an agency may not eliminate resident choice under section 8(o)(13)(E) for more than 25 percent of its authorized vouchers.

“(M) Section 8(r) (42 U.S.C. 1437f(r); relating to portability of voucher assistance), except that a participating agency may receive funding for portability obligations under section 8(dd) or appropriations bills in the same manner as other public housing agencies.

“(N) Sections 8(cc) and 6(u) (42 U.S.C. 1437f(cc), 1437d(u); relating to records, certification and confidentiality regarding domestic violence).

“(O) Subsections (a) and (b) of section 12 (42 U.S.C. 1437j; relating to payment of prevailing wages).

“(P) Section 18 (42 U.S.C. 1437p; relating to demolition and disposition of public housing).

“(Q) Requirements regarding—

“(i) establishment of resident councils and jurisdiction-wide resident organizations;

“(ii) the minimum amount of public housing agency support for such councils and organizations; and

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“(iii) involvement of such councils and organizations in public housing agency operations, as authorized under sections 3(e)(2), 6(e)(5)(C), and 9(e) (42 U.S.C. 1437a(e)(2), 1437d(e)(5)(C), 1437g(e)) and implemented by applicable regulations.

Families receiving assistance under this section shall retain the same rights of judicial review of agency action as they would otherwise have had if the agency were not participating in the program.

“(5) PROHIBITION AGAINST CHANGES IN PROGRAM FUNDS.—The amount of program funds a participating agency receives shall not be diminished or increased solely by its participation in the program under this section, except that with respect to program funds used for purposes of permitted reductions under subsection (d)(2)(B) the Secretary shall provide annual funding on the same basis as if such funds had been used for the purposes for which they were appropriated under sections 8 and 9, as applicable.

“(6) PUBLIC AND RESIDENT PARTICIPATION.—Each participating agency shall provide opportunities for resident and public participation in the annual plan under paragraph (7), as follows.

“(A) NOTICE TO RESIDENTS.—

“(i) NOTICE.—Each year, the agency shall provide notice to the low-income families it serves under the programs authorized by this section as to the impact of proposed policy changes and program initiatives and of the schedule of resident advisory board and public meetings for the annual plan.

“(ii) MEETING.—The agency shall hold at least one meeting with the resident advisory board (including representatives of recipients of assistance under section 8) to review the annual plan for each year.

“(B) PUBLIC MEETING.—With respect to each annual plan, the agency shall hold at least one annual public meeting to obtain comments on the plan. In the case of any agency that administers, in the aggregate, more than 15,000 public housing units and vouchers, or that operates in more than one county, the agency shall hold one or more additional meetings, in the agency’s reasonable discretion, in locations that promote attendance by residents and other stakeholders.

“(C) PUBLIC AVAILABILITY.—Before adoption of any annual plan, and not less than 30 days before the public meeting required under subparagraph (B) with respect to the plan, the agency shall make the proposed annual plan available for public inspection and copying, on request, and for access through the internet. The annual plan shall be made available for public inspection not less than 30 days before approval by the board of directors (or other similar governing body) of the agency and shall remain publicly available.

“(D) BOARD APPROVAL.—Before submitting an annual plan to the Secretary, the plan, as applicable, shall be approved in a public meeting by the board of directors or other governing body of the agency.

“(7) ANNUAL PLAN AND REPORT.—

“(A) REQUIREMENT.—For each year that a participating agency operates under this section, the agency shall submit to the Secretary an annual plan under this paragraph that encompasses all requirements under this section, in lieu of the public housing agency plan required under section 5A, as well as all other planning and reporting requirements (except as required by subsections (d)(2) and (e)).

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"(B) CONTENTS.—Each annual plan shall be drafted in a format developed by the Secretary, through rulemaking or other method that affords the opportunity for public comment, and shall include the following information:

"(i) A description of all program initiatives and generally applicable policy changes, including references to provisions of this Act, regulations promulgated under this Act, or other requirements which the agency requests the Secretary to waive, consistent with subsection (e)(1).

"(ii) A description and comparison of changes under the proposed plan of the agency from the plan for the preceding year.

"(iii) A capital plan and a description of property redevelopment or portfolio repositioning strategies and proposed changes in policies or uses of funds required to implement such strategies, including estimated costs and proposed sources of funds for such activities.

"(iv) Documentation of public and resident participation sufficient to comply with the requirements under paragraphs (4) and (6), including a copy of any recommendations submitted in writing by the resident advisory board of the agency and members of the public, a summary of comments, and a description of the manner in which the recommendations were addressed.

"(v) Certifications by the agency that—

"(I) the annual plan will be carried out in conformity with title VI of the Civil Rights Act of 1964, the Fair Housing Act, section 504 of the Rehabilitation Act of 1973, title II of the Americans with Disabilities Act of 1990, and the rules, standards, and policies in the approved plan.

"(II) the agency will affirmatively further fair housing;

"(III) the agency has complied and will continue to comply with its obligations under the program evaluation; and

"(IV) any other certifications required by law, as determined by the Secretary.

"(vi) Other such information as the Secretary reasonably deems necessary for the proper operation, management, and assessment of the program.

"(C) CHANGES.—

"(i) PROPOSAL.—If an agency proposes to make any material changes in policies or initiatives in the annual plan during the year covered by the plan, such changes shall be proposed as an amendment to the agency's annual plan and submitted to the Secretary in writing only after the agency has complied with the requirements of subsection (d)(6) in the same manner and to the same extent as the agency must comply with such subsection with respect to its annual plan.

"(ii) MATERIAL CHANGE.—For purposes of this paragraph, a material change is any change in rent or occupancy policies that affects assisted families, as well as permitted reductions requested pursuant to subsection (d)(2)(B) and approved pursuant to subsection (d)(2)(C). For all other changes the agency shall consult with the resident advisory board before such change is adopted. The Secretary shall respond in writing to

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either approve or disapprove the amendment request subject to the standards for approval under subparagraph (D)(ii).

“(D) APPROVAL PROCESS.—

“(i) TIMING.—The Secretary shall notify the agency in writing if the Secretary objects, on the basis of subparagraph (D)(ii), to any provisions of the proposed plan or material change or information therein. When the agency submits its annual plan 75 days in advance of its fiscal year, the Secretary shall respond to the agency within 75 days, either to approve the plan or to identify the areas of the plan requiring revision prior to approval in accordance with subparagraph (D)(ii). If the Secretary does not respond to the agency within 75 days after an on-time receipt of the agency’s annual plan or proposed material change, the agency’s annual plan is approved and the agency is authorized to implement such plan. If the Secretary does not receive the agency’s annual plan 75 days before the beginning of the agency’s fiscal year, the agency’s annual plan is not approved until the Secretary responds, which shall be within a reasonable time. The Secretary, directly or through the public housing agency, shall make information relating to such approval or disapproval available to the agency’s resident advisory board. Approval under the third sentence of this clause shall not preclude judicial review regarding such compliance pursuant to chapter 7 of title 5, United States Code, or an action regarding such compliance under section 1979 of the Revised Statutes of the United States (42 U.S.C. 1983).

“(ii) STANDARDS FOR APPROVAL.—The Secretary shall approve a plan or plan amendment if—

“(I) the Secretary reasonably determines, based on information contained in the annual plan or plan amendment, that the agency is in compliance with the requirements of this section;

“(II) the annual plan or plan amendment is consistent with other reliable information available to the Secretary;

“(III) the annual plan or plan amendment and the agency’s activities under the program are otherwise in compliance with applicable law; and

“(IV) the agency has provided a reasonable explanation of how a waiver requested under subparagraph (B)(i) will advance the agency’s program under its annual plan consistent with the purposes under subsection (a), and clearly explains the activity for which the waiver will be used, projected outcomes, and measurements to assess the impact of the waiver.

“(E) REPORTS.—

“(i) ANNUAL REPORT.—Each participating agency shall submit to the Secretary an annual report, in a format and at a time specified by the Secretary and of a quality acceptable to the Secretary. Each annual report shall—

“(I) include information regarding the agency’s sources and uses of program funds, including any other financial information or supporting documentation reasonably required by the Secretary;

“(II) provide such data as the Secretary may reasonably request to assist the Secretary in assessing the demonstration, including information related to activity outcomes and the extent to which activities are successful in achieving the objectives of the program under this section; and

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"(III) other such information as the Secretary reasonably deems necessary for the proper operation, management, and assessment of the program.

"(ii) OTHER REPORTS.—In addition to the annual report under clause (i), the Secretary may require participating agencies to submit other data and information, in a format and at a time prescribed by the Secretary, as the Secretary reasonably deems necessary for the proper operation, management, and assessment of the program.

"(8) PROHIBITED POLICIES.—Notwithstanding anything in this section to the contrary, only those agencies admitted pursuant to subsection (c)(1) may implement the enhanced policies described in such subsection.

"(c) ENHANCED PROGRAM PARTICIPATION.—

"(1) ENHANCED POLICIES.—From among the public housing agencies selected pursuant to subsection (b), the Secretary shall select approximately, but no more than, 25 agencies as necessary for evaluation purposes (with a consortium, under this subsection, considered a single agency) except that agencies participating in the demonstration under section 204 of Public Law 104-134 that enter the program under this section shall not count toward such limitation, to develop, propose, and implement the following enhanced policies designed to achieve one or more of the purposes specified in subsection (a).

"(A) SUBSTANTIAL RENT POLICY CHANGES.—Rent policies designed to encourage self-sufficiency among assisted families under which a low-income family would not qualify as an assisted family pursuant to subsection (d)(3).

"(B) TIME LIMITS.—Policies which impose time limits on the term of housing assistance from program funds received by families assisted with program funds.

"(C) EMPLOYMENT CONDITIONS.—Policies that condition the receipt of housing assistance from program funds by families on the employment status (including participation in training or other work readiness activities) of one or more family members.

"(2) REASSESSMENT OF ENHANCED POLICIES.—If, during the evaluation of a policy pursuant to paragraph (1), the Secretary identifies credible evidence that a policy adopted by an agency is causing or has caused material harm to assisted families, the Secretary shall advise the agency and give the agency a fair opportunity to contest such evidence. The Secretary may recommend that the agency modify or terminate activities shown to have harmful consequences, and require the agency to reassess such policy as part of its next annual plan process, which shall address the evidence presented by the Secretary and the Secretary's recommendations.

"(3) CONTINUATION OF ENHANCED POLICIES.—After policies implemented under this subsection are evaluated, an agency that wishes to continue any such policy shall share the evaluation results and its reasons for proposing to continue the policy as part of a public and resident comment process, which may be done as part of the plan process under paragraph (7). The Secretary may disapprove continuation of such policies if the evaluation does not show benefits such as significant improvements in family incomes, other indicia of increased economic security, or other benefits to assisted families or families on the agency's public housing or voucher waiting lists that outweigh evidence of increased hardships and any increased cost per household. In making its decision to disapprove, the Secretary shall consult with the evaluation advisory group.

"(f) RECORDKEEPING: ACCESS TO DOCUMENTS.—

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"(1) RECORDKEEPING.—Each public housing agency participating in the program under this section shall keep such records as the Secretary may prescribe as reasonably necessary to disclose the amounts and the disposition of amounts under the program, to ensure compliance with the requirements of this section, and to measure performance.

"(2) ACCESS TO DOCUMENTS BY SECRETARY.—The Secretary shall have access for the purpose of audit and examination to any books, documents, papers, and records that are pertinent to assistance in connection with, and the requirements of, this section.

"(3) ACCESS TO DOCUMENTS BY THE COMPTROLLER GENERAL.—The Comptroller General of the United States, or any of the duly authorized representatives of the Comptroller General, shall have access for the purpose of audit and examination to any books, documents, papers, and records that are pertinent to assistance in connection with, and the requirements of, this section.

"(g) EVALUATION.—

"(1) IN GENERAL.—The Secretary shall conduct an evaluation of the policies implemented by agencies participating in the program under this section to determine whether and to what extent the program has achieved each of the purposes specified in subsection (a) and to identify policy changes or initiatives that would improve the effectiveness of one or more programs under this Act. In addition to the overall evaluation, the Secretary shall, with regard to approved uses of funds under subsection (d)(2)(B)(ii), assess the level of success of each public housing agency in achieving its goals and objectives, including costs, outputs, and outcomes, and compare alternative strategies selected by different agencies for achieving similar goals. In making such assessments and comparisons, the Secretary may rely on data and impact reports submitted by agencies pursuant to the requirement under subsections (b)(2)(F) and (d)(2)(E) and as part of the annual plans under subsection (d)(7).

"(2) EVALUATION OF ENHANCED POLICIES.—Each agency selected for participation under subsection (c) shall agree that any policy described in paragraph (e)(1) will be subject to a detailed evaluation of such policy utilizing a rigorous research methodology which shall include, at least in part, random assignment to treatment and control groups in order to compare the impact on assisted families to similar types of families not subject to such policy and an examination and comparison of the costs, outputs, and outcomes of tested strategies at agencies operating in different types of housing and labor markets, and may incorporate, where appropriate and to the extent funding is available, the following:

"(A) A process evaluation that examines the challenges faced in implementing tested strategies and how those challenges were overcome.

"(B) A qualitative examination of the impacts of tested strategies on affected families, including families on agency waiting lists.

"(C) An examination of the impact of tested strategies on the housing needs and conditions of the jurisdiction in which the agency works.

The Secretary shall contract out the responsibilities for the evaluation under this paragraph to an independent entity that is qualified to perform such responsibilities.

"(3) ADVISORY COUNCIL.—

(A) PURPOSE.—The Secretary shall establish an Advisory Council to provide input on the methodology for conducting the evaluations required under this section and to advise the Secretary in interpreting the findings and formulating recommendations to the Congress to be included in the reports to the Congress. The Advisory Council shall advise the Secretary and the evaluating entity in the design of the evaluation of enhanced

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policies under paragraph (2) and in reviewing interim findings to advise the Secretary with respect to reassessments under subsection (c)(2), and may advise the Secretary on the identification of promising program models to test at other agencies based on the policies proposed and implemented by public housing agencies under subsection (d)(2)(B)(ii) and other matters related to the success of the evaluations.

(B) MEMBERS. — The Advisory Council shall include —

(i) social scientists with experience in evaluating relevant types of policies and using relevant types of methodologies;

(ii) representatives of public housing agencies, including one or more individuals who has directed a public housing agency participating in the demonstration under section 204;

(iii) representatives of low-income families assisted by agencies participating in the program under this section; and

(iv) experts in each of the following areas: policies related to increasing the economic self-sufficiency of low income families; public housing and tenant-based rental assistance policy issues and funding; low-income housing redevelopment and financing; and public management.

The Secretary shall publish in the Federal Register notification of intent to establish the Advisory Council and how interested persons may submit their qualifications. After selection, the Secretary shall maintain on the Department's website a list of the members of the Council. Members of the Advisory Council shall express their independent judgment.

(C) REQUIREMENTS.—The Advisory Council established by this paragraph shall not be subject to the requirements of the Federal Advisory Commission Act. Staff support for the members of the Council shall be provided by the Secretary. Members are not eligible for compensation. The Secretary may reimburse Council members for travel expenses for any in-person meetings out of the funds available to the Secretary for staff travel. The Secretary is not required to provide public notice of Council meetings or to permit members of the public to attend. The Council shall be disbanded upon submission of the final report required under paragraph (4)(B)(iii).

(4) REPORTS.—

(A) IN GENERAL.—The Secretary shall submit three reports to the Congress, as provided in subparagraph (B), evaluating the policies under subsections (a) and (c)(1). Each such report shall include findings and recommendations for any appropriate legislative action and shall be available to the public.

(B) TIMING.—The reports required under this paragraph shall include—

(i) an initial report, which shall be submitted before the expiration of the 3-year period beginning on the date of the enactment of the Affordable Housing and Self-Sufficiency Improvement Act of 2012, to report on progress in establishing the new program under this section and initiating evaluations under paragraphs (1) and (2);

(ii) an interim report, which shall be submitted before the expiration of the 6-year period beginning on such date, to report on interim results of the evaluation under paragraph (2) of this subsection, results of other initiatives by

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agencies participating in the program under this section, and the impacts of funding flexibility on the number of families served and the achievement of agency goals and program purposes, and

⁽ⁱⁱ⁾ a final report, which shall be submitted before the expiration of the 9-year period beginning on such date, to provide final conclusions concerning the impacts of the enhanced policies evaluated and the flexibilities available through the program under this section, and recommendations regarding whether any of the enhanced or other policies evaluated should be incorporated in the programs under this Act and whether the flexibilities for high performing or other agencies should be continued, modified, or expanded.

^(b) AUTHORIZATION OF APPROPRIATIONS.—

⁽¹⁾ EVALUATIONS.—There is authorized to be appropriated \$24,000,000 to the Secretary for the purpose of conducting the evaluations and providing the staff support for such evaluations and preparing the reports to the Congress, as required under subsection (g), which amounts shall remain available until expended. The Secretary shall to the extent possible use funds available for the evaluation to defray the costs of evaluation for participating agencies, particularly smaller agencies.

⁽²⁾ PROGRAM SUPPORT.—There is authorized to be appropriated to the Secretary \$5,000,000 for each of fiscal years 2013 through 2017 for the purpose of providing program support either by contract or directly to assist the Department of Housing and Urban Development in managing the program under this section and collect and analyze data on program activities, as well as provide additional resources to subject agencies the Secretary deems necessary to successfully conduct the program.

^(c) RESIDENT CAPACITY BUILDING.—

⁽¹⁾ AUTHORIZATION OF APPROPRIATIONS.—There is authorized to be appropriated to the Secretary \$10,000,000 for each of fiscal years 2013 through 2017, from which the Secretary may make obligations to tenant groups, nonprofit organizations, and public entities for building the capacity of tenant organizations, for assistance in providing capacity building to enhance the capabilities of low-income families assisted or eligible for assistance under the program under this section and under the program authorized by section 204 of the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act, 1996 (42 U.S.C. 1437f note) to participate in the process for establishment and revision of annual plans under this section for participating agencies, including review and comment on impact analyses and demolition or disposition proposals.

⁽²⁾ USE OF AVAILABLE FUNDS.—Notwithstanding any other provision of this section or other law, in allocating funding appropriated for public housing operations to an agency participating in the program under this section that did not in the previous year provide to a resident council or jurisdiction-wide resident council any portion of the additional funds provided for tenant participation, the Secretary shall reduce the funding provided to the agency by the amount of the tenant participation funding and make such funds available for resident capacity building under this subsection.

⁽³⁾ CRITERIA FOR AWARD OF FUNDS.—The Secretary shall publish the criteria to be used to award funds on a competitive basis, in an amount appropriate to the number of households affected by the program of the participating agency or agencies that such participating agency

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assists, to local, regional, State, or national organizations, including partnerships of multiple organizations, that—

“(A)(i) have members who are predominantly low-income;

“(ii) have low-income individuals on their boards of directors; or

“(iii) directly work with or represent low-income individuals;

“(B) have the legal, policy, and development expertise to provide such assistance or will subcontract for such services; or

“(C) have a demonstrated capacity to manage similar grants or will partner with another organization with experience under requirements specified by the Secretary.

“(4) PUBLIC HOUSING AGENCIES.—

“(A) INELIGIBILITY, NONLIABILITY.—Public housing agencies shall not be eligible to receive funds under this subsection, and shall not be liable for the action of any grantee.

“(B) COOPERATION WITH GRANTEES.—Public housing agencies participating in the program under this section shall cooperate with grantees receiving technical assistance funds under this subsection, to assist such grantees to reach families assisted under the program.

SEC. 402. TREATMENT OF MOVING TO WORK AGENCIES.

A public housing agency that as of the date of enactment of the Affordable Housing and Self-Sufficiency Improvement Act of 2012 has an existing agreement with the Secretary pursuant to the moving to work demonstration under section 204 of the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act, 1996 (42 U.S.C. 1437f note), or was authorized by another provision of law enacted prior to enactment of this section to enter into an agreement under such section 204, may at any time, at such agency's sole option, be admitted to the program authorized by this section, provided, however, that such agency is not in default under its agreement with the Secretary and shall be subject to the terms and conditions of this section, and that admission of any such agency shall not count toward the limitations on program participation in subsections (b)(3) and (c)(1) of section 37 of the United States Housing Act of 1937, as amended by this act.

PREPARED STATEMENT OF DIANNE HOVDESTAD

DEPUTY DIRECTOR, SIOUX FALLS HOUSING AND REDEVELOPMENT COMMISSION, ON
BEHALF OF THE NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS

AUGUST 1, 2012

Chairman Menendez, Ranking Member DeMint, Members of the Subcommittee on Housing, Transportation, and Community Development, thank you for giving me the opportunity to provide information and perspective on “Streamlining and Strengthening HUD’s Rental Assistance Programs”. My name is Dianne Hovdestad; I currently serve as the Deputy Director of the Sioux Falls Housing and Redevelopment Commission (SFHRC) in Sioux Falls, South Dakota. SFHRC provides rental assistance to approximately 2,000 households by utilizing various HUD-funded programs. These include: the Section 8 Housing Choice Voucher (HCV) program; the Section 8 Moderate Rehabilitation Program, public housing, programs funded through the McKinney-Vento Act, including Shelter Plus Care and Housing Opportunities for Persons with AIDS; HOME Tenant-Based Rental Assistance; and the Section 8 Multi-Family program. In addition, the SFHRC provides affordable housing using Neighborhood Stabilization Program funding and is currently working toward the construction of additional affordable housing using the Low-Income Housing Tax Credit program and the HOME program.

I am also proudly representing the National Association of Housing and Redevelopment Officials (NAHRO), one of the Nation’s oldest and largest housing advocacy organizations. NAHRO currently represents over 22,000 individual members and over 3,200 housing and redevelopment authorities across the country. NAHRO has led the fight for cost-effective legislative reform of the Section 8 voucher program over the past 10 years. Speaking for myself as someone who has been involved in the housing industry as a professional for 35 years, I am particularly pleased to have the opportunity to address the Subcommittee today on the critically important matter of streamlining and strengthening HUD’s Rental Assistance Programs, particularly the Section 8 voucher program.

Responsible Program Administration During a Period of Fiscal Restraint

I think it is safe to say that this hearing is being held at a time when economic and political considerations affecting the Nation’s fiscal health are in more dramatic focus than they were when we began the conversation about administrative and programmatic reform of the Section 8 voucher program—nearly 10 years ago. Speaking not only for housing authorities in South Dakota but on behalf of my colleagues across the country, I think the need to support responsible reform of the Section 8 voucher program is more pressing and more important today than it was in 2002. In my own case, the work of my authority and our own efforts to support those in need of decent, safe, sanitary and affordable housing in Sioux Falls have been greatly impacted by spending reductions, which have drastically reduced available funding to operationalize the voucher program. In particular, Section 8 administrative fees have been reduced to such an extent that in testimony before the Senate’s own THUD Appropriations Subcommittee, HUD Secretary Donovan testified that housing authorities in growing numbers were telling HUD that they would no longer be able to afford to run the voucher program—including the highly praised Veterans Affairs Supportive Housing (VASH) program that serves America’s veterans. Since that admission earlier this year, the numbers of housing authorities in the same position has only grown. This alone should compel this Subcommittee to act now to reform this critically important program by reducing administrative burdens that not only cost the Federal Government money in a time of fiscal restraint but also impair housing authorities’ abilities to serve families, seniors and the disabled who rely on this program to ensure a decent, safe and affordable place to call home.

The Section 8 HCV program is a regulation-rich program. The myriad of complex regulations make the program difficult to administer and difficult for recipients and landlords alike to participate in. Program operations are subject to administrative directives, rules and regulations of Federal and State agencies including, but not limited to, HUD. Administrative directives, rules and regulations are always subject to change. Most often such changes may occur with little notice, and/or inadequate funding to pay for related costs. These same changes usually increase administrative burdens that simply add cost, often with a limited net gain in efficiency. I want to thank you for holding this hearing and for your commitment to addressing the pressing need for reform properly through the authorization process. Hopefully your work and your leadership will result in thoughtful and purposeful improvements in HUD’s rental assistance programs—most particularly the voucher program.

Necessary Funding to Properly Administer the Voucher Program

The work of SFHRC, as well as that of other housing authorities across South Dakota and the Nation, has been greatly impacted by significant cuts in administrative fees over the past 10 years. By way of example, in 2003, SFHRC received \$970,000 to cover the costs of administering \$7,300,000 in housing assistance payments under the voucher program. In addition, SFHRC was paid by HUD for audit reimbursement costs, hard-to-house fees, assessment and preliminary fees for tenant-protection vouchers. Each year since, SFHRC has received less administrative fee dollars than it has earned, due to shortfalls in appropriations which led to significant administrative fee pro-rations. SFHRC was able to meet the program's regulatory requirements through the utilization of its Section 8 administrative fee reserves, currently referred to as Unrestricted Net Assets (UNA). Unfortunately, SFHRC has now spent down most of its UNA, so it no longer has that resource to cover future program expenses. Sound business practice is to have the equivalent of six months of operational expenses in reserves. SFHRC's current UNA would cover approximately 12 days of operational expenses.

SFHRC anticipates it will receive administrative fees of \$950,000 for calendar year 2012 to administer approximately \$10,000,000 in rental assistance dollars. Due to the pro-ration I referred to earlier, SFHRC will receive a mere \$0.80 for every \$1.00 it earns. The consequences of the decrease in administrative fees have been a decrease in customer service to both the recipients and the landlords. Sadly, as I understand from discussions with my NAHRO colleagues, this is now the norm. SFHRC has not been able to replace staff who have left its employ; remaining staff have to labor under an increased daily workload. As a consequence, SFHRC does not have the funds to pay for overtime, as required by Federal labor laws, so households are waiting longer for inspections. Recipients, landlords, applicants and the community wait longer for answers to questions. Landlords in particular are becoming so upset with this delayed response that they are threatening to leave the program.

Decreases in administrative fees have also led to a problem with utilization of SFHRC's annual budget authority for the voucher program. In calendar years 2008–2011 for example, SFHRC utilized 100 percent of its vouchers. In calendar year 2012, SFHRC utilization rates are approximately 95.67 percent, even though SFHRC has over 3,500 households who are on its waiting list. Our wait time is approximately 4 years. The 4.33 percent that is available but not utilized represents 92 very low-income households who are also in desperate need but who are not receiving assistance with their rent each month. Simply put, fewer staff means fewer people can be served.

The bottom line? NAHRO projects that 87,352 fewer households will receive much-needed rental assistance due to staff reductions from lack of administrative fees. This figure excludes all incremental and special voucher programs. NAHRO is happy to make available to the Subcommittee their most recent administrative fee survey, as well as a chart showing the historic relationship between administrative fee pro-rations at pre-Quality Housing Work Responsibility Act (QHWRA) rate and housing authorities' ability to lease and serve low-income households.

Reform Provisions Central to Any Bill To Be Adopted

I believe that today's hearing is a very positive step forward in the effort to bring about desperately needed changes that will make the voucher program more inviting to landlords, better able to ease current administrative burdens on staff and better able to assist the very low- and extremely low-income households in need of affordable housing. At NAHRO we believe that local discretion is the key to providing flexibility for program administrators that serve these households in varied geographic and economic conditions.

For several years now there has been much talk in Washington about proposed reforms that would make the administration of the voucher program and the delivery of other rental assistance programs more effective and efficient—including, for example, statutory changes to improve the Family Self-Sufficiency (FSS) program. Here again, an adequate, consistent subsidy structure is key to a successful program. A program like FSS needs stable funding, as it is difficult to manage due to the uncertainty of annual appropriations for housing assistance payments and administrative fees. Again, it takes people to serve people, but it also takes adequate and properly deployed funding to help move families out of poverty and on to a life based upon individual achievement, accomplishment, and fulfillment.

Mr. Chairman we believe that there are several factors or components that are essential to any reform bill you ultimately adopt. At this time, I would like to highlight those factors, recognizing that several of these components have been part of previous reform bills that have been under consideration here in Washington.

Housing Quality Standards and Property Inspection Protocols

Under current regulations, a housing authority cannot provide rental assistance until it has determined that a dwelling unit that a voucher holder wishes to rent meets HUD's Housing Quality Standards (HQS). This regulation applies whether the unit is brand new or 100 years old. NAHRO and my colleagues in South Dakota support the enactment of legislative changes that would give agencies discretionary authority to start paying rental assistance from the date of the initial property or unit inspection if there are only minor HQS violations, i.e., conditional approval, where in addition the rent is reasonable. We believe that adequate safeguards are in place to ensure that housing assistance payments will be withheld and assistance abated in 30 days, from the date of the initial inspection, if the violations are not corrected. This simple, straightforward change would benefit both recipients and landlords. Recipients would receive quicker rental assistance in a safe and healthy environment and landlords would have an incentive to participate in the program since they would not lose income while correcting minor violations. A majority of landlords participating in the voucher programs administered across South Dakota are in fact small business owners. Any assistance that can be provided to them in the operation of their rental property with limited loss of income is a win for everyone. On this point, I would like to note that HUD program regulations allowed "conditional approval" of units from the inception of the Section 8 Certificate program until 1980. SFHRC has exercised this option and it has worked very well for the reasons I noted above.

In an effort to ease unnecessary regulatory burdens, NAHRO also continues to support the discretionary authority to inspect voucher program units every 2 years, while acknowledging that this may not be the right solution for all housing authorities. This would allow housing authorities to perform inspections on a geographic basis instead of tying inspections to each household's lease anniversary date. It is important to note that in South Dakota, as well as other rural areas across the country, there are housing authorities that administer the voucher program across significantly large geographical areas. For most of those housing authorities, it would not be uncommon for staff to drive 100 miles or more to conduct an inspection. The annual inspection process is a major program expense when considering staff salaries (including driving time to the inspection and the necessary time to conduct the on-site property inspections), gas costs, vehicle maintenance, and reimbursement for meals while traveling to and from the property. We believe that local discretion to inspect units on a biennial basis is a critically important cost-savings measure that should be included in any reform bill you consider.

Finally on this point, in areas of the country where Low-income Housing Tax Credit, HOME or other multifamily properties are inspected by other governmental agencies such as a State housing finance authority, we believe that housing authorities should have the discretion to use inspections conducted by those entities, as long as the inspection criteria meets or exceeds HQS, in lieu of conducting our own HQS inspection.

Income and Rent Determinations

A second component central to any reform effort deals with the evaluation of resident income and the determination of tenant rents. The complexity of the rent and income calculations existing under current regulation is daunting, and no doubt underlies many of the problems experienced under current rules with respect to payment error. NAHRO recognizes that efforts to address rent simplicity, and more particularly "rent reform," are inherently controversial. Nevertheless, any effort to simplify the rent and income calculation process should be pursued with all deliberate speed.

All of the various bills which have been in circulation and under review for years, including the Section Eight Voucher Reform Act (SEVRA), the Section Eight Savings Act (SESA) and now the Affordable Housing Self-Sufficiency and Improvement Act (AHSSIA) which is currently under consideration by the House Financial Services Committee, include titles intended to provide "income and rent simplicity." However, with all the changes over the years in each of the bills, housing authorities that have examined this issue indicate that none of them accomplish the intended goal of determining household income and calculating households' rent shares simply, as in the definition above. I would like to highlight some of our concerns and recommendations regarding income and rent provisions.

First and foremost, an operational definition of "income and rent simplicity" is an income definition and household rent calculation method that is relatively simple for housing authorities to calculate and administer, leaves the Brooke Amendment in place for existing assisted households by household type (not each individual household) within each housing authority, but does not automatically create a set of in-

tended incentives or disincentives for low-income households, and provides a greater degree of transparency to participating households property owners and managers. By contrast, an operational definition of "income and rent reform" is an income definition and household rent calculation method that is relatively simple for housing authorities to administer, does not necessarily leave the Brooke Amendment in place for existing or future assisted households by household type (not each individual household) within each individual housing authority, likely creates a set of intended incentives or disincentives for low-income households, and likely provides a greater degree of transparency to participating households property owners and managers.

With this in mind, NAHRO is particularly concerned about two areas of potential hardship related to elderly and disabled families and families with dependent children. In any legislation you adopt, we urge you to include a provision that authorizes the Secretary, by regulation and for a period not exceeding 3 years following the date of enactment, to limit increases in rent for elderly or disabled families and for families with dependent children whose rent has increased due to changes in the allowable exclusions for medical expenses or child care expenses.

It is also important to point out that the rent and income provisions you consider and possibly adopt may have an unintended and negative impact on housing authorities' rent revenue in the public housing program. For example, the New York City Housing Authority has estimated that its public housing rent revenue from residents would decrease substantially as a result of legislative changes affecting rent and income. Thus, we urge you to include in any bill you adopt a provision that would authorize compensation to housing authorities through increased Operating Funds.

Housing authorities are required to verify and report to HUD all sources and amounts of included and excluded household income. While securing third-party verification of income that is to be included in determining annual income and rent does make sense, the noteworthy expense of verifying excluded income to be reported to HUD does not. Additionally, verification of allowable deductions is another time-consuming and costly administrative process.

If income and rent determinations are done in a way that meets the principal and intended goals and objectives of the voucher program, and if income and rent determinations could be conducted in a way that would otherwise benefit low-income households, then I believe that property owners and the remaining 99 percent of public housing authorities that are not MTW agencies would benefit in terms of reduced administrative burdens. The Federal Government would also directly benefit from administrative cost savings. I am certain Mr. Kinard of the Newark Housing Authority can provide you with comments from the vantage point of an MTW agency.

As the representative of a non-MTW agency in South Dakota, I think that any changes in income and rent simplicity provisions in the voucher, public housing and project-based rental assistance program should reduce burdensome reporting requirements placed on recipients and should relieve housing authority staff of many verification and processing tasks that only add cost. As a professional and as a taxpayer I also believe that a proper income and rent methodology should reduce the amount of improper payments.

I encourage you to add language to any reform legislation you adopt that would authorize recertifications for fixed-income households every 3 years, with the application of an annual adjustment factor to their income. This would provide relief to recipients who struggle to attend appointments due to physical limitations or lack of reliable transportation. I also encourage and support other simplification provisions, such as eliminating the requirement to verify and maintain records of excluded income, as well as the requirement to use a household's prior year's income. I also support the ability to use income determinations made by other Government agencies.

In addition to reducing the reporting and processing responsibility on low-income households and housing authority staff, income and rent reform changes have the potential of promoting employment among assisted households without the immediate burden of paying a higher rent. Modest reduction of the interim reporting requirement for decreases and increases in households' earned income, for example, along with exclusion of the first 10 percent of earned income up to \$9,000, should provide greater incentive for some working households to remain gainfully employed.

Households with children in particular should also get the benefit of an increase in the dependent allowance and any program reform bill you adopt should permit an adjustment in the threshold for unreimbursed child care expenses from 10 percent to 5 percent of gross income. Current regulations allow a dollar-for-dollar de-

duction in gross income for unreimbursed child care. This new adjustment to child care deduction would increase the household's rent.

Finally, NAHRO supports language that would enable a housing authority to implement alternative tenant rent structures in rental assistance that preserves the Brooke Amendment. Alternative rent methods include the continuation of flat rents based on the rental value of the unit, income-tiered rents, rents based on a percentage of the household's income and the use of existing rent structures. NAHRO believes that alternative approaches to income and rent determinations, when carefully reviewed and analyzed for their likely effects, offer important lessons for possible further improvements for all assisted agencies and owners and provide opportunities for outcome-based research for a menu of locally based options in the future.

Funding Policy

As I mentioned earlier, the uncertainty of the renewal funding process in recent years has made the management and operation of the voucher program a difficult challenge. The goal of any housing authority is to maximize its leasing up to its baseline total of authorized vouchers in order to assist as many families as possible. Unfortunately, with constant formula changes over the years and delays in the annual budget process, many agencies have been hesitant to issue vouchers—either to keep from over-committing their dollars, or to keep from leasing beyond their baseline until they know their annual appropriation.

A provision found in the December 1, 2010, version of SEVRA that bases funding on the actual leasing and voucher costs for the prior calendar year and the 5-year authorization for renewing leased vouchers for example provides much-needed stability to properly manage the program. Authorization to retain 6 percent of annual budget authority in Net Restricted Assets (NRA) is also an important provision in any final legislation you adopt.

As I stated earlier, reductions in administrative fee funds have already had an impact on the number of families that housing authorities can serve on a national basis. NAHRO is very concerned that additional funding reductions in FY2013 could lead to more perilous consequences across the country if a remedy cannot be agreed to and implemented in a timely fashion. NAHRO has two proposals, either one of which can responsibly mitigate decreased administrative fee funding. The first would allow the current HAP and administrative fee accounts to be combined into one account, providing local authorities with the discretion to utilize those dollars with proper safeguards built in. A second approach would allow housing authorities to utilize unused NRA to supplement dwindling administrative fee dollars—again, with proper safeguards built in. NAHRO would welcome the opportunity to discuss these recommendations with you in greater detail as you continue to deliberate the content of voucher reform legislation.

NAHRO has also prepared a detailed analysis that addresses voucher funding practices over the years, and has recommendations that will address problems related to an uneven and unstable funding policy.

Utility Allowances

Currently, each housing authority must devise a utility schedule for their jurisdiction. The data is often imprecise and continually changing. For an agency with a large geographic area, or with multiple providers of a certain utility, the task is arduous, time-consuming, and costly. Consider, too, all the small public service districts. NAHRO recommends that HUD be required to share utility costs with housing authorities and allow them, if they so desire, to utilize these estimated utility costs as standard allowances. I sincerely hope that this language is included in any bill that you ultimately adopt.

If HUD were required to publish utility information each year by State and region from other governmental sources, housing authorities would know whether or not utility rates in their respective areas increased by 10 percent or more in order to determine whether or not conducting extensive calculations of utility rates and consumption were warranted. We certainly hope the Subcommittee will address this apparent inconsistency. Housing authorities should be able to use the utility allowance of a household's authorized voucher size if the bedroom size of their leased unit is greater than their authorized voucher size. During the drafting of AHSSIA, your colleagues in the House responsibly included language proposed by NAHRO that does exactly that.

Finally, housing authorities should be allowed to use the lower of their utility companies' "lifeline" rates or the standard commercial rate averages where applicable and be able to average annual utility allowances by bedroom size in lieu of utility allowances by structure type. Alternatively, housing authorities should be able

to survey their area utility charges and consumption rates, document them, and propose average utility allowances by bedroom size, subject to HUD approval. This would significantly reduce the complexity and calculation errors by housing authorities for utility allowances, and greatly simplify the leasing process for voucher holders and property owners to help create less programmatic barriers to low-income assisted households accessing the housing market relative to unassisted households.

Current Legislative Reform Proposals Before the Congress

With one notable exception, much of the December 1, 2010, version of SEVRA (Section 8 Voucher Reform Act) provides a thoughtful and pragmatic platform to begin your current review and analysis and hopefully represents a workable place to begin your work on voucher reform. In 2010, this version of SEVRA was actively discussed for possible inclusion in the 2011 appropriation bill under consideration at that time. As such, it was a vehicle that a number of our industry colleagues, if pressed, likely could have supported. NAHRO played an active role in moving this particular version of events forward and formally endorsed this particular legislative draft.

As I mentioned earlier in my statement, the time for action is now. The 111th Congress had an opportunity to advance a bill that NAHRO felt made good sense, practically and politically. The December 1, 2010, version of SEVRA was a rather scaled-down version of earlier iterations of SEVRA legislation from years past but it was, never the less, a meaningful and practical bill. That bill did not contain everything we had hoped for, but it did contain much that we could support, including the following:

Income Targeting: The December 1, 2010, version of SEVRA improved income targeting for all extremely low-income applicant households, with particular benefits for families in rural communities and large-size families in metropolitan communities, by using the higher of the Federal poverty level or extremely low-income thresholds. It provided better access to the Section 8 HCV program, public housing program, and project-based Section 8 multifamily housing assistance programs.

Housing Quality Standards and Inspection Process: The December 1, 2010, version of SEVRA also included a number of inspection-related provisions, including ones that would: allow housing authorities the discretionary authority to conduct HQS inspections of all of their voucher-assisted units every 2-years rather than annually; permit housing authorities to perform inspections on a geographical basis; allow inspections conducted by other entities to be used in place of a housing authority-conducted HQS inspection; and permit a housing authority at its discretion to allow a voucher-assisted household to move into a dwelling unit after signing a lease with a property owner for a unit that has a reasonable rent and no health or safety violations, such that an agency may commence a lease, execute a HAP contract and verify within 30 days that the unit passes HQS.

Administrative Simplicity for Income and Rent Reviews: Administrative simplification provisions in the December 1, 2010, version of SEVRA also track with the reforms noted in my testimony today. That version of SEVRA would have relieved housing authorities of the responsibility to maintain records of miscellaneous HUD-required income exclusions, and would have allowed housing authorities to use applicable inflation adjustments for fixed-income families. Additionally, language in that bill permitted housing authorities safe harbor reliance on other governmental income determinations (e.g., Medicaid, TANF), and allowed housing authorities to make other appropriate adjustments when using prior year's calculations of other types of income. These would be welcome additions to the HCV program. NAHRO also supported provisions regarding housing authorities' use of households' prior-year earned income and alternative rent structures that would be allowed under the voucher, public housing and project-based Section 8 programs.

Expansion of Family Self-Sufficiency Program (FSS): The December 1, 2010, version of SEVRA converted the Family Self-Sufficiency (FSS) program from an annual competitive grant to an administrative fee to pay for the cost of an FSS coordinator as part of the standard administrative fee provided to housing authorities. Additionally, language in the bill would have established standards for the number of FSS coordinators that an agency may fund and restored coordinator funding for agencies with effective FSS programs that lost funding in prior years for reasons unrelated to performance.

Payment Standards, Fair Market Rents, and Utility Allowances: The December 1, 2010, version of SEVRA required HUD to approve housing authority requests to raise the payment standard to up to 120 percent of the Fair Market Rent (FMR) for housing authorities with high rent burdens or high concentrations of poverty. To provide reasonable accommodations for persons with disabilities, the proposed bill also permitted housing authorities to, without HUD approval, increase payment

standards up to 120 percent of the FMR. Also, HUD was authorized to approve payment standard requests in excess of 120 percent of FMR. The 2010 bill also improved the timing of HUD-published FMR values. This version of SEVRA also required HUD to publish data regarding utility consumption and costs in local areas as is useful for the establishment of allowances for tenant-based utilities for voucher families.

Access to HUD Programs for Persons With Limited English Proficiency: The 2010 bill language also included a requirement that HUD develop and make available translations of vital documents developed by a HUD-convened task force, establish a toll-free number and document clearing house, and complete a study of best practices for improving language services for individuals with Limited English Proficiency (LEP).

Project-Based Voucher Assistance Program: Finally, the December 1, 2010, version of SEVRA would have amended the percentage of units that can have project-based assistance in an agency's voucher portfolio; provided protections against displacement for families who reside in a dwelling unit proposed to be assisted under the PBV program; and permitted the use of site-based waiting lists under the PBV program—all of which NAHRO supported.

AHSSIA

In the period of time between December of 2010 and today, your House colleagues on the Financial Services Committee have advanced two separate reform proposals: the Section 8 Savings Act (SESA) and the current Affordable Housing Self Sufficiency Improvement Act of 2012 (AHSSIA). At present, an AHSSIA draft proposal has already been approved by the Insurance, Housing and Community Opportunity Subcommittee. We understand that the draft is currently being readied for a full Committee mark-up, which will hopefully take place following the August recess. We at NAHRO believe that there is much that we can support in the most recent AHSSIA draft. I would add the fact that NAHRO's many discussions with House staff about improving that proposal even further have been fruitful and productive. Our views on the most recent draft of AHSSIA are as follows:

Funding Voucher Renewals: With respect to Housing Assistance Payments and Net Restricted HAP Assets, NAHRO believes that regulatory and administrative reforms are desperately needed. The backbone upon which the voucher program relies to achieve its historic success—a sound funding policy—has been thrown off kilter over the years and is in need of improvement. Housing authorities around the country have witnessed a widening gap between budget utilization rates and their voucher lease-up rates (percentage of authorized vouchers leased). As a result, many housing authorities are now serving fewer families than their authorized number of vouchers. We would submit that prudent, strategic and purposeful application of a sound funding policies based on lessons learned, and the restoration of the renewal HAP funding policy that was in place in FY2003 represent the centerpiece of any voucher reform legislation and accordingly should be included in the final bill you adopt. Please know that funding policies recommended by NAHRO over many years do not increase the amount of required funding, but rather distribute this limited Federal resource on a sound and rational basis subject to pro-rations. This approach we believe would provide a greater measure of transparency and accountability to voucher programs. We are pleased to see that the most recent draft of AHSSIA does contain a voucher renewal policy that for the most part includes these important components. But we are concerned however that offsets of MTW agency dollars are anticipated in the most recent House draft with respect to voucher renewals. We oppose offsets of this nature and we are working with House staff to find a mutually acceptable solution. To avoid problems such as this, we suggest that this Subcommittee formally adopt language on this subject that has been a part of THUD bills for the past 7 years. This language would avoid overfunding/underfunding of housing authority dollars and the formula for renewals in these same bills is based upon actual cost data from housing authorities. Both components are necessary and entirely appropriate and we urge that you include language in your bill that anticipates and includes language to support these important points.

Financial Self Sufficiency (FSS): NAHRO has supported the inclusion of language concerning the FSS program in AHSSIA and has been pleased to support the provision championed by Chairwoman Biggert over several years. We would, however, note that HUD has also advanced FSS reform legislation that also appears to achieve many of the objectives NAHRO could support. Senator Reed, a distinguished Member of the Banking Committee, is also very involved in the FSS discussion. Our hope is that a consensus product will be hammered out and will part of any final reform bill that Congress approves going forward. We feel confident we could sup-

port a responsive FSS provision in any final reform product you adopt based upon our most recent review of proposals currently on the table.

In all circumstances however, current experience over the last several years have shown us that unless Congressional appropriators increase funding for the expanded FSS program contemplated by HUD, Senator Reed and Representative Biggert, existing agencies with successful FSS programs will lose much-needed funding. NAHRO recommends coordination between this Subcommittee and the THUD Appropriations Subcommittee as this legislation moves forward to ensure that there are not unintended consequences of existing agencies inadvertently losing their existing FSS funding.

Restoration of "Maximized Leasing" and an Explicit Policy on Net Restricted Assets: Earlier AHSSIA discussion drafts have included language that states "[r]eserves may be used for overleasing in any year, regardless of whether such use is eligible for renewal funding in a subsequent calendar year." Although the language contained in earlier AHSSIA discussion drafts does not state whether the use of reserves would be eligible for HAP renewal funding, NAHRO is at a minimum pleased these provisions would reinstate "maximized leasing"—a wise and prudent practice that worked effectively prior to FY2003. Maximized leasing was an option formerly available to housing authorities for many years under the voucher program. It has enabled them to serve the maximum number of households possible with the annual amounts provided to them, so long as their annual spending over the subsequent year did not exceed 100 percent of their contracted units over the 2-year period.

Ongoing Administrative Fees: NAHRO believes that studying administrative fees in the voucher program is necessary. We believe that a study, if well-designed and well-executed, can illustrate the voucher program's current condition relative to these goals, and would illustrate examples where a balance is being struck between the methods housing authorities are using to achieve balanced outcomes within their budgets. However, we feel strongly that final determinations regarding administrative fee rates should not be left open to change by the Executive Branch. If allowed by Congress, one Administration could, for example, use the authority to significantly incentivize use of vouchers in metropolitan and suburban areas at the expense of rural communities unmet affordable housing needs; another Administration could use its authority to significantly incentivize widespread use of deep rental housing subsidies at the highest end of agencies' payment standard authority even if it meant serving fewer families overall. Still another Administration could use its authority to significantly incentivize home ownership at the expense of rental housing opportunity.

Administrative fee rates have been established in statute over the history of the HCV program with operational success, without undue influence by any Administration. The Office of Management and Budget (OMB) has consistently given the HCV program the highest rating awarded to any of HUD's programs. Just as we have emphasized how important a sound HAP and NRA funding policy is to the success of voucher programs, we also believe that the funding structure to support the administrative functions necessary to help families succeed and to enforce housing quality standards under the program be established by the Congress. Accordingly, for reasons specified above, NAHRO believes that any legislation you adopt should require HUD to submit ongoing administrative fee study findings to Congress and to interested stakeholders. NAHRO also supports deferring to the existing authorized statute regarding pre-QHWRA fee rates and design under Section 8(q).

Moving to Work: NAHRO has long advocated for greater program flexibility and an expanded Moving to Work (MTW) program in its current form. We fully support expanded participation in a well-designed MTW program, as has been done in an incremental fashion over the last several years through the appropriations process and in similar fashion in legislation sponsored by Representative Gary Miller. NAHRO's first order of business with regard to MTW over the years has been and remains to ensure that existing MTW agencies do not have to unravel their valuable programs, which they have crafted over several years. We do however strongly support an expansion of MTW to enable program flexibility for many more housing authorities, large and small. If moving and passing long-awaited legislative reforms for non-MTW agencies means doing so without a separate MTW title, NAHRO would support introduction and passage of a stand-alone and well-crafted MTW bill.

With respect to MTW language found in AHSSIA, NAHRO and many other groups working with HUD collaborated on principles to underpin an expanded MTW program. Much of what we agreed to as a group is we understand to be included in any final version of AHSSIA. We urge this Subcommittee to carefully consider this consensus approach to MTW expansion as one possible approach towards greater program flexibility for many more housing authorities nationwide. However we

also stand ready to work with you to find additional avenues to encourage program innovation and flexibility using the current MTW framework.

Meaningful Regulatory and Administrative Reforms From HUD Are Long Overdue

I would also like to briefly raise the matter of administrative and regulatory reform which, in our opinion, has been long-overdue at HUD with regard not only to the voucher program but other programs administered by housing authorities.

On May 3, 2011, NAHRO provided an extensive set of recommendations (Document ID: HUD-2011-0037-0024-1 and HUD-2011-0037-0024-2) regarding regulatory and administrative reforms in the voucher, public housing and community development programs, in response to President Obama's Executive Order 13563 titled, "Reducing Regulatory Burden; Retrospective Review." On, May 23, 2011, NAHRO also sent a letter to HUD to thank HUD for including us in a "Delivering Together" briefing focusing on the Department's intent to identify and implement short-, medium-, and long-term regulatory and statutory reforms to decrease the regulatory and administrative burden faced by public housing agencies. At that time, NAHRO submitted a smaller list of 27 regulatory and administrative reforms in voucher programs, and also at that time expressed our belief that significant reforms are needed immediately for programs administered by housing authorities.

We believe that, in addition to the efforts you are making to advance voucher reform legislation, HUD should be prompted by Congress to act with deliberate speed to put in place long-overdue regulatory and administrative reforms that would further enhance and expedite a more cost effective and administratively less burdensome voucher program. We ask the Subcommittee to work with us to ensure the rapid execution of these reforms that HUD can do now.

Conclusion

Mr. Chairman, as this Subcommittee seeks to advance a bill that not only makes sense substantively but politically, we urge you to consider and ultimately adopt a bill that hews closely to the December 1, 2010, version of SEVRA and reflects some of the more thoughtful and constructive provisions in AHSSIA that we have identified today. We see no reason, given the measure of support that the December 1, 2010, version of SEVRA had and the AHSSIA bill for the most part now has, to either radically depart from language contained in these constructive approaches to reform—or worse to start from scratch. The time for discussion has passed; the time to act is now! With specific respect to AHSSIA, we are very pleased to see that your House colleagues made significant progress on a number of issues important to NAHRO, including improvements to the HQS section, and also retained important language regarding the establishment of administrative fee rates by Congress. Certainly there is more that this Subcommittee can do to improve upon both bills as I have noted but, after almost 10 long years of fits and starts, there is no reason to undermine largely viable products that have many if not most program stakeholders on board.

On behalf of my colleagues at NAHRO, thank you again for the opportunity to come before you and express our opinions regarding this vitally important legislation. We look forward to working with you to achieve voucher reform now!

PREPARED STATEMENT OF HOWARD HUSOCK

VICE PRESIDENT FOR POLICY RESEARCH, MANHATTAN INSTITUTE

AUGUST 1, 2012

Thank you Mr. Chairman and thanks to this Committee for devoting its time and attention to the important issues of low-income housing policy, which matters so much both to the Nation's most disadvantaged households and to the economies and development of our cities.

The question of how to finance and maintain affordable housing and how to structure and manage our tenant-based low-income housing programs so as to encourage self-sufficiency and upwardly mobility, both discussed in the bill recently considered by the House, are crucial elements of both U.S. housing policy—and social policy. In these remarks, I will focus mainly, on tenant-based programs, particularly the Housing Choice Voucher program.

As the members know, housing vouchers, over the past two decades, have emerged as a major program for many of our lowest-income households, roughly doubling in size. In FY1998, the Congress appropriated some \$9 billion for local public housing authorities to distribute in voucher form; most recently, the HUD budget includes more than \$17 billion for the purpose. Vouchers now serve more

households than traditional public housing—1.8 million vouchers were issued from March 2011 through June 2012, compared with just 1.1 million traditional public housing households. Spending on vouchers has even surpassed direct cash benefits provided through the Temporary Assistance for Needy Families program of time-limited support.

One can well understand and sympathize with the reasons for supporting the program's growth. The challenge for the lowest-income families, those earning 30 percent or less of the median income, to find housing they can afford is substantial, although the unfortunate rise in home foreclosures may plausibly make some difference in that regard. It is important, however, to understand the housing choice voucher program, in addition, as a key aspect of U.S. social policy—our policy aimed at aiding the long-term upward mobility of the most disadvantaged households. That traditional goal of social policy—what President Johnson called a “hand up”—is relevant to the program, in which many of the most vulnerable households are enrolled. Like traditional public housing, nonelderly voucher recipients with children are largely single-parent families—a full 94 percent of whom are headed by single women. By design, the program serves disadvantaged households of extremely low income—47 percent of voucher recipients are at or below 20 percent of the national median income.

The importance of structuring the program so as to provide aid and incentives such that households move toward economic self-sufficiency has, in addition to being in keeping with the traditional goal of social programs—as expressed, for instance in the 1996 welfare reform act signed by President Clinton, Work—also has a practical dimension. The combination of long waiting lists and the likelihood that appropriations will not be significantly increased and the program expanded, means that it behooves policy makers to find ways for the program to help participating families move up and out, if only so as to be able to serve others in need.

It's in this context that it's crucial to set goals for the program that go beyond administrative efficiency, as important as that is—and include, in addition, such metrics as employment, increased household income, and what could be called graduation from the program, or reduced tenure length. To find the best ways to manage and structure the program so as to achieve these goals, it makes good sense to give the Nation's extensive network of 3,200 public housing authorities flexibility, based on the model of efforts authorized under HUD's extremely important but modestly scaled Moving to Work initiative, which should be made permanent and expanded to include as many interested authorities as possible.

There is precedent for this approach. In the early 1990s, the Nation saw State Governments, in their traditional role that Justice Brandeis characterized as that of laboratories of democracy, experiment with a variety of approaches to welfare reform. The results guided what then proved to be a successful Federal level reform, which has since reduced dependency and increased workforce participation. We have seen similar significant local successes among those public housing authorities permitted to date to make use of the flexibility of the Moving to Work program. Notably the Atlanta Housing Authority, about which I've written extensively in *City Journal*, used its MTW waiver to link a work requirement with the housing choice voucher, coupled with an extensive counseling and workforce preparation program. As a result, it has seen an increase in workforce participation among its nonelderly population from 14 percent in 1994 to 71 percent today. Atlanta officials believe they have created what they term “a culture of work”—an historic return to the original conception of who public housing authorities should serve. Other authorities, including Cambridge, Mass, and Portland, Oregon, are using Moving to Work ways to change their rent structure so as to stop discouraging work—and to encourage tenants to move up and out over time. HUD data shows that, currently, 50 percent of voucher tenants, and 48 percent of tenants in traditional public housing, have been in the program for 5 years or longer, a tenure beyond the time limit included in the TANF legislation and with which housing programs might logically be aligned. An expansion of Moving to Work could allow other authorities to try such experiments—or even to consider, as Philadelphia has, an outright time limit, or to tie housing assistance to education, as in Tacoma, Washington.

Flexibility for local housing authorities must be guided, however, by clear goals to be shaped by the Congress and overseen by HUD. These could include increases in employment, measurable increases in voucher household income, and reduced length of stay in the voucher program itself. As with public education, the requirement to meet standards, coupled with local flexibility in how best to do so, can be an effective approach. Local officials know their own labor and real estate markets best. It's unwise to limit the flexibility that comes with Moving to Work, an initiative begun by the Clinton Administration, to just 30 of the Nation's 3,200 housing

authorities. It's a result which could be achieved, as well, through a bloc grant approach to the voucher program generally.

It is important to acknowledge and keep in mind, as well, as you consider such changes, that the voucher program has experienced problems that Moving to Work might help to fix. In a 2009 paper for the University of Cincinnati School of Planning entitled "The Geographic Concentration of Housing Vouchers", a team of researchers led by David Varady concluded that a concerted effort by the local housing authority to reduce the reconcentration of poverty households through the voucher program—a goal widely discussed—had not succeeded. The authors found "vouchers clustering in areas that are poor and/or getting poorer, including "emerging hot spots"—and reported, too "neighborhood alarm." The study cites and confirms journalistic accounts, including my own in *City Journal* and that of Hannah Rosin in *The Atlantic*, which have raised similar concerns. In discussing what the authors call the "implications for national policy", they conclude that "studies combining the qualitative and quantitative perspectives are urgently needed". Policy innovation, permitted at the local level, can serve as the foundation for such research, as policy makers, over the long-term, consider whether housing-specific assistance, and on what terms, is the best way to assist low-income households.

Finally, I'd like to address briefly the proposal, also discussed in the House bill's language, to convert public housing capital and operating subsidies into project-specific vouchers, as a both a means to preserve affordable housing developments in their current use and to facilitate increased investment of private capital to reduce an estimated \$30 billion in maintenance backlogs. The rationale for doing so, in a time of serious maintenance needs and budget shortfalls, is obvious—and may provide a useful additional tool for public housing officials facing serious deferred maintenance. I would urge, however, that Members of this Committee be cautious in a too-broad embrace of such plans. First, public policies which use public funds, tax credits, or regulatory mandates to influence the allocation of private capital risk reducing the availability of capital for other uses which may contribute more to economic growth and wealth creation—in ways which ultimately benefit lower-income families more than might affordable housing preservation. Similarly, the designation of specific real estate parcels for affordable housing purposes for the long-term risks inducing municipalities to forestall the use of such parcels for the highest and best economic uses—again in ways that may uplift the economic prospects of all citizens. The proposed voucher-based maintenance financing approach for public housing is impressively imaginative—but should not been seen, in my view, as a way to preserve, unit-by-unit—all public and subsidized housing. Better, in my own view, for the Congress, through HUD, also to encourage additional approaches which could include, for instance, the sale of high-value parcels currently owned by local housing authorities so as to create locally based maintenance endowments for remaining units. Let's be guided, both in how much public housing we preserve, and how we set the regulations for housing vouchers, not by a narrow goal of preservation or expansion but by a broad determination to help uplift low-income households and improve the economies of our cities.

PREPARED STATEMENT OF WILL FISCHER

SENIOR POLICY ANALYST, CENTER ON BUDGET AND POLICY PRIORITIES

AUGUST 1, 2012

Thank you for the opportunity to testify. I am Will Fischer, Senior Policy Analyst at the Center on Budget and Policy Priorities. The Center is an independent, non-profit policy institute that conducts research and analysis on a range of Federal and State policy issues affecting low- and moderate-income families. The Center's housing work focuses on improving the effectiveness of Federal low-income housing programs, and particularly the Section 8 housing voucher program.

It is commendable that the Subcommittee is holding a hearing on streamlining and strengthening rental assistance. The proposed Affordable Housing and Self-Sufficiency Improvement Act (AHSSIA), Section 8 Savings Act (SESA), and Section 8 Voucher Reform Act (SEVRA) all contain important, timely measures to strengthen the voucher program and other major rental assistance programs. The reforms in these bills would sharply reduce administrative burdens for State and local housing agencies and private owners, establish voucher funding rules that would enable housing agencies to manage funds more efficiently, strengthen work supports, and generate large Federal savings.

This testimony focuses on seven core reforms that should receive top priority for enactment. Each of these measures appears in some form in the version of AHSSIA

circulated by the Financial Services Committee on April 13, 2012, and the version of SEVRA circulated by the Banking and Financial Services Committees on December 1, 2010.¹ These high-priority reforms would:

- Simplify rules for setting tenant rent payments, while continuing to cap rents at 30 percent of a tenant's income;
- Streamline voucher housing quality inspections to encourage private owners to participate in the program;
- Establish a stable, fair voucher funding system to enable agencies to use funds more efficiently and better cope with shortfalls;
- Allow more working poor families to qualify for vouchers by modestly raising income targeting limits;
- Strengthen the Family Self-Sufficiency program, which offers housing assistance recipients job counseling and incentives to work and save;
- Provide added flexibility to “project-base” vouchers to support affordable housing development and preservation;
- Make the rental assistance admissions process fairer by limiting screening to criteria related to suitability as a tenant.

My testimony also discusses several other provisions that have been included in one or more of the reform bills.

Reform Would Build On Strengths of the Rental Assistance Programs

The Nation's rental assistance programs help more than four million low-income households afford decent housing. The great majority of these households are senior citizens, people with disabilities, and working poor families with children. As shown in the table attached to this testimony, rental assistance units are spread among the 50 States and across rural and urban areas.

Rigorous research has shown that rental assistance can sharply reduce the incidence of homelessness and housing instability—problems that have been shown to have serious harmful effects on children's health and development.² Families that receive assistance to ease rent burdens also have more funds available for other basic needs, such as food, medication, child care, and transportation, and may be able to save or invest in education to help lift themselves out of poverty.³

Housing assistance produces positive indirect effects, as well. Studies suggest that work-promoting initiatives are more effective for families with affordable housing,⁴ and a growing body of research suggests that stable, affordable housing may provide children with better opportunities for educational success.⁵ Affordable housing combined with supportive services can help the elderly and people with disabilities retain their independence and avoid or delay entering more costly institutional care facilities.⁶ The evidence of health care and other savings from providing affordable housing and services to homeless individuals with chronic health problems is particularly compelling.⁷

¹ My testimony focuses on these versions—the most recent public version of each bill—except where otherwise noted. Since SEVA was circulated by the current leadership of the House Financial Services Committee earlier in this Congress, I generally focus on the Committee's later AHSSIA bill instead. A detailed side-by-side comparing AHSSIA, SEVRA, and current law is available at <http://www.cbpp.org/files/5-10-12-SEVRA-AHSSIA-CurrentLaw-Comparison.pdf>.

² Diana Becker Cutts, MD, “U.S. Housing Insecurity and the Health of Very Young Children”, *American Journal of Public Health*, August 2011, Vol. 101, No. 8, p. 1508; Michelle Wood, Jennifer Turnham, and Gregory Mills, “Housing Affordability and Well-Being: Results From the Housing Voucher Evaluation”, *Housing Policy Debate* 19:367–412 (2008).

³ Joint Center for Housing Studies of Harvard University, “America's Rental Housing: Meeting Challenges, Building on Opportunities”, April, 2011, p. 5 and table A-9, <http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/americasrentalhousing-2011.pdf>.

⁴ James A. Riccio, “Subsidized Housing and Employment: Building Evidence of What Works”, in Nicolas P. Retsinas and Eric S. Belsky, eds., *Revisiting Rental Housing*, Joint Center for Housing Studies and Brookings Institution Press, 2008.

⁵ Maya Brennan, “The Impacts of Affordable Housing on Education: A Research Summary”, Center for Housing Policy, May 2011, http://www.nhc.org/media/files/Insights_HousingAndEducationBrief.pdf.

⁶ Gretchen Locke, Ken Lam, Meghan Henry, Scott Brown, “End of Participation in Assisted Housing: What Can We Learn About Aging in Place?” Abt Associates Inc., February 2011, available at http://www.huduser.org/publications/pdf/Locke_AgingInPlace_AssistedHousingRCR03.pdf.

⁷ For summaries of findings and references, see U.S. Interagency Council on Homelessness, “Opening Doors: Federal Strategic Plan To Prevent and End Homelessness, 2010”, pp. 18–19, http://www.usich.gov/PDF/OpeningDoors_2010_FSPPPreventEndHomeless.pdf; and Michael

Continued

Research has found additional benefits when housing assistance enables low-income families to live in neighborhoods with lower poverty rates, including sharply fewer deaths from disease or accidents among girls and lower rates of obesity and diabetes.⁸ Where housing policies have allowed low-income children to attend high-performing, economically integrated schools over the long term, their math and reading test scores are significantly better than comparable children who attended higher-poverty schools.⁹

The core reforms in SEVRA and AHSSIA would build on this record of success. Fourteen years have passed since the enactment of the Quality Housing and Work Responsibility Act (QHWRA) in 1998, the last major authorizing legislation affecting the voucher and public housing programs. As with any program, adjustments are needed over time to reflect changed circumstances and lessons learned.

Reforms that stretch limited dollars to assist more families or avoid painful cuts are especially urgent today, when budgets are tight but unemployment, poverty, and homelessness are high. The Congressional Budget Office (CBO) estimated that the December 2010 version of SEVRA would reduce the budget authority needed to fund the current level of housing assistance by more than \$700 million over 5 years. Financial Services Committee staff have indicated that the April 2012 version of AHSSIA (which included additional cost saving measures) would save at least \$1.5 billion. These estimates do not attempt to include administrative savings, which could lower funding needs by an added several hundred million dollars over 5 years.

Simplifying Rules for Determining Tenants' Rent Payments

Tenants in HUD's housing assistance programs generally must pay 30 percent of their income for rent, after certain deductions are applied. The rent streamlining provisions in AHSSIA and SEVRA maintain this rule, but would streamline determination of tenants' incomes and deductions. As a result, the bills would reduce burdens on housing agencies, property owners, and tenants. The changes would also reduce the likelihood of errors in rent determinations and strengthen work incentives for tenants.

Most significantly, the bills would:

- *Reduce the frequency of required income reviews.* Currently, agencies and owners must review income annually for all tenants. AHSSIA and SEVRA would allow agencies and owners to limit reviews to once every 3 years for households that receive most or all of their income from fixed sources such as Social Security or SSI and consequently are unlikely to experience much income variation.¹⁰

Today agencies and owners also must adjust rents between annual reviews at the request of any tenant whose income drops. AHSSIA and SEVRA would require adjustments only when a family's annual income drops by 10 percent or more, making such "interim" reviews less common but still providing adjustments when tenants would otherwise face serious hardship. The bills also would require interim adjustments for income increases exceeding 10 percent, except that adjustments for earnings increases would be delayed until the next annual review to strengthen work incentives.

Together, these changes would sharply reduce the number of income reviews that agencies and owners must conduct. This would substantially lower administrative costs, since income reviews are among the most labor-intensive aspects of housing assistance administration.

- *Simplify deductions for the elderly and people with disabilities.* Currently, if the household head (or his or her spouse) is elderly or has a disability, housing agencies and owners must deduct medical expenses and certain disability assistance expenses above 3 percent of the household's income from income for

Nardone, Richard Cho, and Kathy Moses, "Medicaid-Financed Services in Supportive Housing for High-Need Homeless Beneficiaries: The Business Case", Center for Health Care Strategies, Inc., June 2012, available at <http://www.rwjf.org/files/research/74485.business.case.pdf>.

⁸Jens Ludwig, et al., "Neighborhoods, Obesity, and Diabetes—A Randomized Social Experiment", *New England Journal of Medicine*, 365:16, October 2011, <http://www.nejm.org/doi/full/10.1056/NEJMsa1103216>; Brian A. Jacob, Jens Ludwig, Douglas L. Miller, "The Effects of Housing and Neighborhood Conditions on Child Mortality", NBER Work Paper No. 17369, National Bureau of Economic Research, August 2011, <http://www.nber.org/papers/w17369>.

⁹Heather Schwartz, "Housing Policy is School Policy", The Century Foundation, 2010, <http://tcf.org/publications/pdfs/housing-policy-is-school-policy-pdf/Schwartz.pdf>.

¹⁰Many fixed-income benefits, such as Social Security and SSI, typically increase annually due to cost-of-living adjustments. To avoid a loss of revenue from this streamlined option, agencies would be required to assume that in the intervening 2 years these tenants' incomes rose by a rate of inflation specified by HUD.

purposes of determining the household's rent. Agencies and owners report that this deduction is difficult to administer, since they must collect and verify receipts for all medical expenses. It also imposes significant burdens on elderly people and people with disabilities, who must compile and submit receipts that may contain highly personal information. Largely for these reasons, many households eligible for the deduction do not receive it. By contrast, a second deduction targeted to the same groups—a \$400 annual standard deduction for each household where the head or spouse is elderly or has a disability—is quite simple to administer.

AHSSIA and SEVRA would increase the threshold for the medical and disability assistance deduction from 3 percent of annual income to 10 percent. This would reduce the number of people eligible for the deduction—and therefore the number of itemized deductions that would need to be determined and verified—while still providing some relief for tenants with extremely high medical or disability assistance expenses. At the same time, the bills would increase the easy-to-administer standard deduction for the elderly and people with disabilities, to \$675 annually in SEVRA and \$525 annually in AHSSIA, and index it for inflation.

In addition to reducing processing burdens for agencies, owners, elderly people, and people with disabilities, this change is likely to reduce payment errors substantially. HUD studies have found that the medical and disability expense deduction is one of the most error-prone components of the rent determination process, while errors in the standard deduction are rare.

The higher \$625 standard deduction in SEVRA would be preferable, since it would come closer to fully offsetting rent increases (on average across all families) from the scaled back medical expense deduction (although it would also result in somewhat lower savings). Some individual households would see higher or lower monthly rents, but the changes would generally be modest. Congress could provide added protection for tenants who are adversely affected by allowing HUD to establish a hardship exemption policy (as AHSSIA would do) and delaying the effective date of the change to allow tenants to find other ways to cover out-of-pocket medical expenses.

- *Simplify deductions for families with children.* AHSSIA and SEVRA would scale back an existing deduction for child care expenses—which evidence suggests is implemented inconsistently—by allowing deductions only of expenses above 5 percent of income (rather than all reasonable expenses). At the same time, it would increase from \$480 to \$525 a simple annual deduction that families receive for each child or other dependent, and index it for inflation. The dependent deduction recognizes the larger share of family income required to cover nonshelter expenses when a family has more children.
- *Base rents on a tenant's actual income in the previous year.* Currently, rents are based on a tenant's anticipated income in the period that the rent will cover, usually the coming 12 months. Except when a family first begins receiving housing assistance, AHSSIA and SEVRA would require agencies generally to base rents on actual income in the previous year. This would give tenants an incentive to increase their earnings, since such an increase would not affect their rent for as long as a year. It also would simplify administration, both by making it easier for agencies and owners to use tax forms and other year-end documentation to verify income and by reducing the need for midyear rent adjustments for tenants whose earnings change during the year.
- *Limit utility allowances based on family size and composition.* AHSSIA contains a provision to limit utility allowances in the voucher program based on the number of bedrooms a family is eligible for given its composition, rather than the actual size of the unit. Today families are permitted to rent units larger than they are eligible for, but the cap on the total housing costs the voucher covers (that is, the payment standard) does not rise as a result. Adopting the AHSSIA limit on utility allowances would generate savings and avoid providing families incentives to rent larger units than they need.
- *Allow housing agencies to use income data gathered by other programs.* AHSSIA and SEVRA contain a provision that would allow State and local housing agencies and owners to rely on income determinations carried out under SNAP (formerly food stamps) and other Federal means-tested programs, without separate verification. Currently, housing agencies and owners must determine and verify income independently, even though this duplicates work already being carried out by other agencies. Allowing housing agencies to rely on income determinations made by SNAP agencies would ease their administrative burdens consid-

erably, since a large portion of housing assistance recipients also receive SNAP benefits.

AHSSIA, however, does not include a provision from the December 2010 version of SEVRA requiring State SNAP agencies to make available to housing agencies income data for families participating in both programs. It is important that Congress include this requirement, since without it many SNAP agencies may not provide the needed data.

Flat Rent Changes Offer Promising Way To Raise Revenues

To encourage a mixture of incomes among public housing residents, current law permits residents to elect to pay a “flat rent.” This policy benefits residents with the highest incomes (who pay less than 30 percent of their income for housing under the policy) but has been considered reasonable because HUD rules require that flat rents be set at the “estimated rent for which the [agency] could promptly lease the public housing unit”—that is, at the approximate market rent. Data suggest, however, that existing flat rents are well below market rents in some areas, which raises Federal costs and can increase funding shortfalls for local agencies.

AHSSIA includes a statutory change proposed in the Administration’s 2012 budget to require agencies to set flat rents no lower than 80 percent of the HUD fair market rent for the area.¹¹ HUD estimates that the provision would reduce public housing operating subsidy needs by \$150 million in the first year and by more than \$400 million per year once the proposal is fully phased in.

As proposed by HUD, AHSSIA would require local agencies to implement the new policy no later than September 30, 2013, which would allow agencies some time to phase the policy in. In addition, the bill limits any increases in rental payments by affected households to 35 percent per year.

Minimum Rent Increase Would Harm the Poorest Tenants

The April version of AHSSIA contains a provision not included in SEVRA increasing to \$69.45 a month the “minimum rents” that the lowest income housing assistance recipients can be required to pay, and indexing this amount for inflation. Under current law, housing agencies have the option of setting minimum rents for voucher holders and public housing residents up to \$50. HUD also has authority to set minimum rents up to \$50 in project-based Section 8 units, and currently has set that level at \$25.

The April AHSSIA provision makes two significant improvements over the minimum rent proposal in the earlier version of AHSSIA that a House Financial Services subcommittee passed on February 7, 2012:

- The subcommittee-passed bill would have required all housing agencies and owners to charge minimum rents of \$69.45, eliminating the discretion that exists under current law. By contrast the April AHSSIA provision would permit housing agencies and owners to set minimum rents below \$69.45 for “good cause,” unless HUD disapproves the lower rent.
- The subcommittee-passed bill made no significant changes to existing protections for families that would face hardship if they were required to pay minimum rents. A 2010 HUD-sponsored study found that these protections help few families: 82 percent of agencies reported providing exemptions to less than 1 percent of families subject to minimum rents, and only 5 percent of agencies said they had exempted more than a tenth of affected families.¹² The April AHSSIA bill improves the hardship requirements to increase the chances that poor families facing hardship will be exempted.

Despite these improvements, the April AHSSIA provision is still likely to harm many of the Nation’s most vulnerable families and individuals. As many as 500,000 households could be required to pay higher rents, including families with 725,000 children. While the improvements described above would protect some families, many are still likely to fall through the cracks, placing them at risk of severe hardship and even homelessness. Moreover, is not clear what the rationale for the increase is. Congress should omit it in final rental assistance reform legislation.

¹¹ The flat rent option was authorized by the Quality Housing and Work Responsibility Act of 1998 (QHWRA). The AHSSIA provision would also apply to “ceiling” rents, which were established prior to the enactment of QHWRA and are subject to somewhat different rules.

¹² Abt Associates et al, Study of Rents and Rent Flexibility, prepared for HUD Office of Public and Indian Housing, May 26, 2010, http://www.huduser.org/publications/pdf/Rent%20Study_Final%20Report_05-26-10.pdf.

Rent Demonstration Could Be Useful, but Restrictions Should Be Tightened

AHSSIA and SEVRA would authorize HUD to conduct a limited demonstration of alternative rent policies. Such a demonstration is potentially beneficial. Today's rent rules generally work well, providing sufficient help to enable the neediest families to afford housing while not giving higher-income families more subsidy than they need. In addition, the current system maintains largely identical rules across programs and localities, making it easier for voucher holders to move from one community to another (for example to pursue a job opportunity), for private-sector owners and investors to participate in multiple programs and operate in multiple jurisdictions, and for HUD to provide effective oversight.

Most major changes—and particularly those that would result in sharply higher or lower subsidies for certain families—would carry substantial risks and tradeoffs. It is possible, however, that some substantial changes would have significant benefits that would justify enacting them on the Federal level. For example, a policy of disregarding some percentage of earned income would carry added costs, but might encourage sufficient increases in earnings to offset a sizable share of the cost and justify the change. A demonstration could offer an opportunity to rigorously test policy alternatives to determine their costs and benefits relative to the current rules. HUD is already conducting a rent demonstration at a subset of MTW agencies, but would need additional statutory authority to extend it to other agencies.

However, the rent demonstration in AHSSIA and SEVRA should be strengthened in important ways. It should provide HUD broader flexibility to identify promising policies, limit the length of the demonstration to avoid allowing wasteful or harmful policies to remain in place indefinitely, explicitly require an experimental evaluation, and clarify that the “limited” number of families that can be subject to alternative policies should be no more than the number needed to yield statistically valid results.

Streamlining Inspections To Encourage Participation by Private Owners

The voucher program requires that vouchers be used only in houses or apartments that meet Federal quality standards. AHSSIA and SEVRA would allow agencies to modestly change the inspection process used to ensure that units meet those standards. The changes would ease burdens on agencies and encourage landlords to rent apartments to voucher holders.

Most significantly, AHSSIA and SEVRA would allow agencies to inspect apartments every 2 years instead of annually. In addition, the bills would allow agencies to (1) rely on recent inspections performed for other Federal housing programs, and (2) make initial subsidy payments to owners even if the unit does not pass the initial inspection, as long as the failure resulted from non-life-threatening conditions. Defects would have to be corrected within 30 days of initial occupancy for the payments to continue. These provisions would encourage owners to participate in the voucher program by minimizing any financial loss due to inspection delays. They also would enable voucher holders, who in some cases are homeless or experience other severe hardship, to move into the unit more quickly than under current rules.

Today, when an inspection of a unit occupied by a voucher holder finds a violation, the housing agency is permitted to temporarily halt subsidy payments if the owner fails to address the violation in a timely manner, and ultimately terminate the subsidy if the defects are not adequately repaired. AHSSIA and SEVRA would retain this authority and establish a series of requirements regarding the rights of tenants and other aspects of subsidy abatement and termination.

SEVRA also includes a beneficial requirement, which Congress should enact, for housing agencies to provide assistance to help tenants find a new unit and relocate if the subsidy to their unit is terminated because of an inspection violation. AHSSIA would make this assistance optional.

Stabilizing Voucher Funding Rules

One of the most important goals of authorizing legislation concerning the voucher program should be to establish a stable, fair, efficient policy for distributing funds to renew voucher subsidies to the approximately 2,400 State and local agencies that administer the program. This would enable those agencies to assist more families within the level of resources provided in annual appropriations bills than would otherwise be possible.

For the last 9 years, appropriations acts have changed renewal funding policies every several years. Such instability creates uncertainty and makes many agencies reluctant to use the funds they have to serve the number of families Congress has authorized, out of fear that they will not receive sufficient renewal funding to maintain payments to landlords. As a result, only about 92 percent of authorized vouch-

ers are in use, compared to about 97 percent before the changes in renewal funding policy began—a loss of assistance to about 100,000 families. The reform bills include a package of changes that would stabilize and strengthen renewal funding policy.

- *Stable funding formula.* AHSSIA and SEVRA would establish as a permanent part of authorizing law the policy in recent appropriations bills of basing each agency's funding on the cost of the vouchers it used in the previous year, adjusted for inflation and certain other factors. This approach forces agencies to manage within a limited budget, while also ensuring that each agency's funding level matches its actual needs.
- *Stable reserve and offset policy.* AHSSIA and SEVRA would assure State and local housing agencies that they can maintain a funding reserve of at least 6 percent of the renewal funding for which they are eligible, but permit HUD to "offset" (that is, deduct from the agency's funding) reserves above that level. AHSSIA improves on the SEVRA offset policy by extending it to cover MTW agencies in addition to non-MTW agencies; this avoids unfairly disadvantaging non-MTW agencies.

In the current funding environment, when agencies may fear that Congress will not provide sufficient new funding to support all vouchers in use, a predictable reserve level provides the cushion agencies need to reissue vouchers to needy applicants on the waiting list when families leave the program and be confident that they will have sufficient funds to sustain the vouchers. At the same time, making clear that HUD will have authority to offset reserves beyond the permitted amount provides a strong incentive for agencies to put excess funds to use assisting families.

- *Permitting agencies to assist as many families as possible with available funds.* AHSSIA and SEVRA would encourage agencies to reduce the cost of voucher subsidies and stretch their voucher funds to serve as many families as possible by restoring flexibility that existed prior to 2003 to assist families beyond the agency's "authorized voucher cap." Under a policy adopted in annual appropriations acts since 2003, agencies are penalized if they use more than their authorized number of vouchers in a year, even if they can do so with available funds by reducing per-voucher costs. This policy has pushed many agencies to use substantially fewer than their authorized number of vouchers, out of fear of exceeding the cap.

AHSSIA and SEVRA would remove this chilling effect and assure agencies that if they took steps to limit costs, they could use any savings to provide vouchers to more families even if this pushes them above their authorized voucher level. Vouchers above the authorized level that are supported by unused prior-year funds would not be counted for determining the agency's future funding level, so this incentive would not increase program costs.

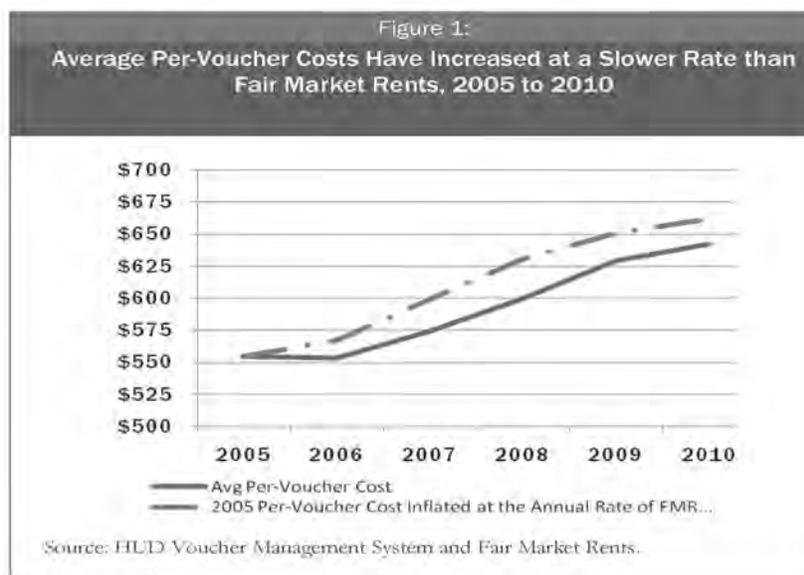
- *Efficient use of funds above renewal formula amounts.* When Congress passes appropriations bills in a timely manner, it sets the voucher funding level before all the data needed to know the precise amount agencies will be eligible for under the renewal formula are available. In recent years, when funding has exceeded the amount needed HUD has been required to distribute the extra funds pro rata to all agencies. HUD could use these funds more efficiently if it had authority to allocate them to meet unforeseen needs, reward high performance, or for other purposes. SEVRA provides HUD broad authority to make such allocations, while AHSSIA provides more limited discretion. The SEVRA provision would be preferable, but Congress should enact at least the AHSSIA provision.

Per-Voucher Costs Have Risen More Slowly Than Housing Costs in the Private Market

While AHSSIA and SEVRA would create important incentives to keep per-voucher costs low, it is important to note that this would build on the voucher program's already successful record of restraining costs. Per-voucher costs have generally risen at a slower rate than housing costs in the private market. HUD-determined Fair Market Rents (FMRs), which are based in market rents for standard-quality unassisted units, increased by 19 percent from 2005 to 2010. As shown in Figure 1, during that same period per-voucher costs increased by less than 16 percent.

A central reason for this is that housing agencies controlled voucher costs through their ability to set payment standards, which cap voucher subsidies and can be set anywhere from 90 to 110 percent of the FMR (and outside that range under some circumstances). This explanation receives support from HUD data showing that, on average, voucher payment standards declined in relation to FMRs from 2005 to 2010.

By incorporating an improved voucher renewal funding policy in permanent law, AHSSIA and SEVRA would provide agencies—as well as families with vouchers and private owners—with more confidence that renewal funding needs will be met in future years, which is particularly important to maintain program effectiveness in the current fiscal environment. This approach would not weaken Congress control over the cost of the program. Congress would still determine the amount of annual program funding, and if the funds appropriated in a given year were insufficient to fully fund the renewal formula, HUD would reduce each agency's funding by the same percentage so funds would still be allocated based on agencies' relative needs. The provisions in the bills would simply ensure that, for any given level of funding, more families would receive the important benefits that vouchers have been shown to provide.



Easing Income Targeting Rules To Help More Working-Poor Families

Currently, 75 percent of vouchers and 40 percent of project-based Section 8 and public housing units must be allocated to households with incomes at or below 30 percent of the median income in the local area at the time they enter the program. AHSSIA and SEVRA would adjust these criteria to require that those vouchers and units be allocated to households with incomes at or below 30 percent of local median income or the Federal poverty line, whichever is higher. Neither this revised requirement nor current law restricts a family's income after it is admitted.¹³

This change would give housing agencies greater flexibility to target working-poor families. Some agencies in low-income areas have expressed concern that the current targeting criteria prevent them from assisting these families. At the same time, the change would maintain the emphasis on assistance for the poor. CBO has estimated that the reduction in subsidy needs that would result from easing targeting rules would reduce funding needs by \$1.14 billion over 5 years, making it the largest source of savings in the bills.

¹³A separate provision of SEVRA (but not AHSSIA) would prohibit families from continuing to receive assistance if their income rises to a much higher level (generally above 80 percent of local median income). Currently, there is no income limitation after admission. Under SEVRA, owners and agencies could opt not to enforce this new policy in project-based Section 8 and public housing. And families with incomes above 80 percent of median in most areas no longer qualify for assistance under the voucher program because 30 percent of their adjusted income—their required contribution—exceeds the maximum rent a voucher can cover. Nonetheless, because the SEVRA policy would terminate assistance for some higher-income families (who would then typically be replaced by lower-income families who require larger subsidies), CBO estimated that it would cost \$209 million over 5 years.

The only difference between the bills' targeting provisions is that AHSSIA fixes language in SEVRA that could allow targeting in project-based Section 8 developments in Puerto Rico and other U.S. territories to be raised excessively. The Federal poverty line is not designed to apply in U.S. territories, and using it to target housing assistance there would raise the targeting threshold far above 30 percent of the local median income and shift assistance away from the neediest families. For this reason, both AHSSIA and SEVRA seek to exempt the territories from the targeting change, but the SEVRA exemption applies only to "in the case of public housing agencies" located in a U.S. territory. This would allow sharp targeting increases in project-based Section 8 developments, which generally are not administered by public housing agencies. Congress should adopt the more complete AHSSIA exemption.

Strengthening the Family Self-Sufficiency Program

The Family Self-Sufficiency (FSS) program encourages work and saving among voucher holders and public housing residents through employment counseling and financial incentives. Both AHSSIA and SEVRA establish a stable formula to allocate funds to cover administrative costs of FSS programs. This formula would replace a competitive process that has made funding unpredictable and disrupted administration of local FSS programs.

Unfortunately, residents of units assisted through the project-based Section 8 program are ineligible for FSS today. AHSSIA (but not SEVRA) corrects this omission, enabling families receiving any type of Section 8 assistance as well as public housing residents to benefit from FSS. Offering participation in the FSS program to project-based Section 8 tenants would be optional for property owners. Generally, such tenants would participate in an FSS program operated by a public housing agency, if one is available that will admit the families. Owners of properties with project-based Section 8 contracts could also use funds in their HUD-required "residual receipts accounts" to operate an FSS program independently if it serves at least 25 participants.

AHSSIA also contains other beneficial FSS provisions, including a requirement that housing agencies with 500 or more voucher and public housing units offer or expand FSS programs if sufficient funds are available.

Facilitating Use of Project-Based Vouchers

Both AHSSIA and SEVRA would make it easier for a housing agency to enter into agreements with owners for a share of its vouchers to be used at a particular housing development. Through such "project-basing," agencies can, for example, partner with social service agencies to provide supportive housing to formerly homeless people or support development of mixed-income housing in low-poverty neighborhoods with strong educational or employment opportunities.

Residents of units with project-based voucher assistance have the right to move with a voucher after 1 year, using the next voucher that becomes available when another family leaves the program. (When this occurs, a voucher remains attached to the housing development; the family moving out of the development receives a separate voucher.) This "resident choice" feature and other policies make the project-based voucher option significantly different from earlier programs that provided project-based assistance.

AHSSIA and SEVRA increase the percentage of an agency's voucher assistance that can be project-based from 20 percent to 25 percent, if the added 5 percent is used in areas where vouchers are difficult to use, to house homeless families or individuals, or to provide supportive housing to people with disabilities. AHSSIA adds units that house veterans or the elderly to the categories that qualify for this added authority. In SEVRA, agencies would be permitted to project-base the higher of 25 percent of their authorized vouchers or 25 percent of their voucher funding, giving greater flexibility to housing agencies that are able to keep project-based voucher costs low. AHSSIA would base the limit strictly on the percentage of the agency's authorized vouchers.

In addition, the bills would permit housing agencies to commit to project-based voucher contracts with a term of 20 years (the term HUD permits for contracts under the separate project-based Section 8 program), rather than the 15-year maximum permitted today. The bills would also permit owners to establish and maintain site-based waiting lists subject to civil rights and other requirements, allow agencies to provide project-based vouchers in the greater of 25 percent of units or 25 units in a project, and permit 40 percent of the units in a project to have project-based vouchers in areas where vouchers are difficult to use or the poverty rate is

20 percent or less.¹⁴ These policy changes would help agencies increase the effectiveness of the voucher program in rural and suburban areas, where rentals are frequently scarce and properties tend to be small, and in low-poverty areas in all types of locations.

Protection Against Arbitrary Screening of Housing Assistance Recipients

Housing agencies and owners must screen housing assistance applicants based on several federally required criteria, and can opt to establish additional screening criteria. AHSSIA and SEVRA would make several changes to the screening process for the housing voucher program, including limiting optional screening criteria to those directly related to the family's ability to meet the obligations of the lease and requiring housing agencies to consider mitigating factors before denying assistance. These important improvements would prevent, for example, denial of assistance to a family with a good record of paying rent on time but (like many poor families) a weak credit history for other reasons, and would make it easier to provide housing vouchers to homeless people and others with an urgent need for assistance who today might be denied help for arbitrary reasons.

Unfortunately, the current AHSSIA draft drops a provision of some versions of SEVRA that would have made similar (and equally important) changes in the public housing and project-based Section 8 programs. Congress could extend the changes to those programs by restoring the omitted provisions or simply by giving HUD authority to establish common requirements for all rental assistance programs.

Both AHSSIA and SEVRA also would add an important protection for families being shifted from assistance under the public housing or HUD multifamily programs to housing vouchers due to the elimination of the existing assistance for the properties in which they reside. The bills recognize that such families are not new to HUD assistance and should be considered continuing participants rather than new applicants subject to initial screening. In addition to protecting families, these changes also would reduce administrative burdens for housing agencies.

Other Provisions

In addition to these seven core reforms, a series of other provisions appear in SEVRA, AHSSIA, or both. Several of these provisions are discussed below:

- Local flexibility to adjust voucher payments to accommodate the special needs of people with disabilities. Housing agencies today can allow people with disabilities to use vouchers to rent more expensive units than is permitted for other families, if this is necessary to accommodate their disability. If this requires a payment standard above 110 percent of the FMR, however, the agency must obtain special approval from HUD. This can create delays that make it much more difficult for people with disabilities to use vouchers. Accessible units are often more costly than a typical unit in an area, either because few such units exist or because they require added investments by owners.

SEVRA and AHSSIA would allow agencies to provide exceptions up to 120 percent of the FMR for this purpose without approval from HUD. Because these exceptions would be needed for only a small share of vouchers, this important provision's cost would be minimal.

- Use of vouchers in manufactured housing. AHSSIA drops a beneficial SEVRA provision that would allow vouchers to be used to cover loan payments, insurance payments, and other periodic costs of buying a manufactured home, in addition to the cost of renting a space on which to place the home. The combined payments would, however, be subject to the same subsidy limits that apply to other vouchers.

Currently, vouchers can be used to cover the full range of periodic home ownership costs for the purchase of a traditional home or a manufactured home set on land also purchased by the family. But if a family rents the space for a manufactured home, which is common in some States, the voucher subsidy is limited to about 40 percent of the assistance it could otherwise provide, and can only cover the space rental costs and not the costs of purchasing the home. The SEVRA provision would allow vouchers to be used effectively in a segment of the housing market that in some areas is the most readily available source of affordable housing—and that for many families offers the most realistic avenue to home ownership.

¹⁴Both today and under AHSSIA and SEVRA, agencies can place project-based vouchers in 100 percent of units in developments that assist the elderly or people with disabilities or provide supportive services to residents.

- *Fair Market Rents.* AHSSIA and SEVRA contain identical provisions that would make modest improvements to the process for setting FMRs by streamlining HUD's FMR determination process and giving housing agencies added authority to protect families from rent increases stemming from FMR reductions.
- *Rental Assistance Demonstration.* AHSSIA would authorize \$150 million for a 5-year Rental Assistance Demonstration (RAD) testing the conversion of public housing and Section 8 moderate rehabilitation units to project-based vouchers or Section 8 project-based rental assistance, and \$50 million for similar conversions of units from the Rent Supplement program or Rental Assistance Program to Section 8 project-based rental assistance.

RAD offers a promising approach to preservation of needed subsidized housing. HUD has just issued a final notice to implement a version of RAD approved by the 2012 HUD appropriations act. The AHSSIA RAD provision's most important improvement over the existing version of RAD is that it would permit public housing units to receive subsidy levels capped under regular Section 8 rules rather than limiting subsidies to the amount the units received through public housing prior to conversion. This would make RAD a more effective and flexible tool, but only if appropriators provided the needed funds—a step they were unwilling to take in the 2012 act.

- *Economic Security Demonstration.* AHSSIA contains a provision not included in SEVRA directing HUD to carry out a demonstration to rigorously evaluate options for helping to increase the economic security of housing assistance recipients, including financial incentives, work requirements, and other interventions, and authorizes \$25 million for this purpose. Such a demonstration could generate important information about the effectiveness of policies to promote economic security. If Congress enacts it, however, it should specify that new policies may remain in place only during the demonstration or until otherwise allowed by Congress, to avoid leaving harmful policies in place indefinitely.
- *Moving-to-Work.* The version of AHSSIA passed by a House Financial Services Subcommittee in February 2012 contained a harmful provision permitting an unlimited expansion of the Moving to Work (MTW) demonstration, which currently exempts 35 housing agencies from nearly all Federal housing laws and regulations. This would risk deep cuts to housing assistance over time (due to the block grant funding formula used in MTW) and harmful policy changes, such as sharp rent increases on vulnerable families or time limits on assistance even for working poor families who cannot afford to stay in their homes without help. Moreover, the sweeping scale of the expansion would make it impossible to address a key shortcoming of the existing MTW demonstration—that it has permitted risky policy changes without carefully evaluating them to determine their true impact.¹⁵

The April version of AHSSIA also contains a large-scale MTW expansion, but the expanded program would be subject to significant limitations. These include prohibitions on waivers of some key tenant protections and requirements for rigorous evaluation of the riskiest policies. If Congress enacts an MTW expansion as part of reform legislation, it is essential that it be subject to the limitations in the April AHSSIA bill.

It should be noted however, that even with these limitations MTW expansion would still pose serious risks. Most importantly, the April AHSSIA bill would allow large (though capped) shifts of funds from the voucher program to other purposes, raising the risk that the expansion would result in many fewer needy families receiving housing assistance than would be assisted under regular program rules. Moreover, the goals of MTW, such as testing alternative policies and streamlining program administration, can be pursued effectively through other, less risky approaches. Consequently, even the more limited MTW expansion in the April AHSSIA bill can be justified only if it is critical to the enactment of comprehensive legislation containing most or all of the important reforms discussed earlier in this testimony.

¹⁵For further discussion of the risks of posed by MTW expansion, see Douglas Rice and Will Fischer, *Proposal to Greatly Expand "Moving to Work" Initiative Risks Deep Cuts in Housing Assistance Over Time*, available at <http://www.cbpp.org/files/1-10-12hous.pdf>, and Will Fischer, *Expansion of HUD's Moving to Work Demonstration Is Not Justified*, available at <http://www.cbpp.org/cms/index.cfm?fa=view&id=3590>.

Conclusion

The core provisions of AHSSIA and SEVRA would build on the voucher program's many strengths through a series of measured, targeted improvements that, taken together, would deliver important benefits to housing agencies, private owners, and low-income families. Moreover, because several of the bills' provisions extend beyond the voucher program, they also would improve the public housing and project-based Section 8 programs.

It is important that Congress expeditiously enact rental assistance reform legislation with these key provisions. The need for housing assistance is unusually high today, with elevated levels of homelessness and poverty and widespread foreclosures. Yet Congress appears unlikely to expand resources for housing assistance substantially, and is likely to consider substantial cuts—on top of the sharp reductions enacted in recent years to voucher administrative fees, public housing capital grants, and other housing programs.

At this time, the Nation needs its housing assistance programs to be as efficient and effective as possible, and the measures in AHSSIA and SEVRA would take major steps toward that goal. The bills' core provisions have been fully vetted through deliberations in the past four congressional sessions, and it is urgent that Congress enact them this year so that the large Federal savings they would generate—as well as their many other benefits—can begin to be realized.

HUD Rental Assistance in Rural and Urban Areas



February 13, 2012

The federal government's three largest rental assistance programs — Section 8 Housing Choice Vouchers, Public Housing, and Multifamily Assisted units — provide over 4.4 million units of assisted housing, 633,000, or 14 percent, of which are located outside of metropolitan areas. In addition to these programs administered by the Department of Housing and Urban Development (HUD), the U.S. Department of Agriculture's Rural Housing Service provides rental assistance to 265,000 households.^a

According to HUD's most recent report, 84 percent of renters with "worst-case" housing needs live in central cities or suburbs, while 16 percent live in non-metropolitan areas.^b While the number of federally-assisted affordable rental units is only sufficient to serve about one in four eligible families,^c their distribution across metropolitan and non-metropolitan areas is in close proportion to relative need.

HUD-Funded Rental Assistance						
State	Housing Choice Vouchers		Public Housing Units		Multifamily Assisted Housing Units ^a	
	Non-Metro	Metro	Non-Metro	Metro	Non-Metro	Metro
Total	228,304	1,783,180	188,151	869,305	216,557	1,154,853
Percentage	11%	89%	18%	82%	16%	84%
Alaska	953	3,362	351	770	372	1,578
Alabama	4,982	23,308	12,451	25,355	4,359	14,854
Arkansas	8,906	11,111	7,610	5,773	12,810	1,328
Arizona	817	19,521	281	6,308	569	8,806
California	3,861	283,552	327	39,256	2,635	112,705
Colorado	2,864	26,461	1,553	6,491	3,915	13,534
Connecticut	1,266	30,273	464	14,044	1,891	25,315
District of Columbia	-	8,797	-	8,067	-	13,437
Delaware	-	3,668	101	2,356	901	4,675
Florida	5,538	86,855	2,253	30,808	2,151	50,369
Georgia	4,971	47,235	14,168	27,981	5,963	23,801
Hawaii	2,873	4,421	1,130	4,142	1,355	3,213
Iowa	8,902	11,774	3,081	1,216	5,101	8,489
Idaho	1,332	5,221	322	427	1,531	2,769
Illinois	3,884	58,421	13,918	41,130	6,912	64,633
Indiana	5,323	28,971	2,253	13,726	6,694	29,436
Kansas	2,400	9,086	4,045	4,963	4,178	8,474
Kentucky	8,909	21,326	10,741	11,083	9,912	13,772
Louisiana	5,962	37,313	6,763	12,721	4,627	16,073
Massachusetts	18	71,999	-	31,772	133	67,447
Maryland	1,981	38,739	367	19,093	1,175	32,643
Maine	4,023	7,874	787	3,274	3,086	6,024
Michigan	7,254	45,358	4,886	17,625	7,928	55,281
Minnesota	5,137	25,152	5,349	15,668	9,461	26,417
Missouri	6,152	31,590	5,816	11,097	4,764	25,411
Mississippi	9,242	11,814	10,292	2,261	11,396	7,046
Montana	2,398	2,709	1,069	888	2,412	2,293

HUD-Funded Rental Assistance, cont'd						
State	Housing Choice Vouchers		Public Housing Units		Multi-family Assisted Housing Units	
	Non-Metro	Metro	Non-Metro	Metro	Non-Metro	Metro
North Carolina	15,777	36,674	11,463	21,919	9,856	20,726
North Dakota	2,351	4,213	762	1,071	2,239	1,085
Nebraska	2,737	8,535	3,869	3,369	3,756	3,365
New Hampshire	2,686	6,167	875	3,193	3,632	3,381
New Jersey	-	60,107	-	37,154	-	49,621
New Mexico	3,143	7,884	1,854	1,916	2,783	4,312
Nevada	1,041	12,024	-	3,860	515	3,812
New York	11,127	200,486	4,966	204,372	6,641	126,913
Ohio	13,718	75,810	4,637	41,929	11,372	67,637
Oklahoma	4,084	19,722	5,062	7,059	5,291	9,573
Oregon	7,451	24,941	570	4,833	2,581	8,720
Pennsylvania	8,820	61,377	7,988	52,783	8,024	55,163
Rhode Island	-	8,577	-	9,284	-	16,347
South Carolina	4,248	19,621	3,683	9,376	5,496	15,210
South Dakota	2,168	3,133	903	645	3,540	2,686
Tennessee	4,324	29,083	10,790	24,069	7,300	27,660
Texas	13,775	127,479	10,733	38,543	7,656	56,204
Utah	571	9,798	147	1,630	402	4,472
Virginia	4,874	36,215	1,369	17,363	5,015	30,935
Vermont	2,981	3,005	1,247	581	2,409	1,566
Washington	3,325	41,505	1,262	13,013	2,188	17,490
Wisconsin	3,990	22,274	3,790	9,137	7,543	25,459
West Virginia	4,550	7,223	1,468	3,570	5,329	5,983
Wyoming	615	1,416	355	341	1,749	942

Notes

¹ This is the number of units receiving assistance under the USDA Section 521 rental assistance program; see the fact sheet at <http://www.cbpp.org/files/4-13-11/hous-US.pdf>.

² "Worst Case Housing Needs 2009: A Report to Congress," U.S. Department of Housing and Urban Development, Office of Policy Development and Research, February 2011. HUD defines households with "worst-case" needs as unassisted renters with incomes below 50 percent of the local area median income who paid more than one-half of their income for rent or lived in severely inadequate housing conditions.

³ See Douglas Rice and Barbara Sard, "Decade of Neglect Has Weakened Federal Low-Income Housing Programs," Center on Budget and Policy Priorities, February 2009, <http://www.cbpp.org/cms/index.cfm?id=view&id=2691>.

⁴ Multifamily includes Section 8 New Construction or Substantial Rehabilitation (including 202/8 projects), and all other multifamily assisted projects with FHA insurance or HUD subsidy (including Section 8 Loan Management, Rental Assistance Program (RAP), Rent Supplement, Property Disposition, Section 202/811 capital advance and Preservation).

For additional explanation of the methodology used for these estimates, see <http://www.cbpp.org/files/RentalAssistanceRuralFactSheetMethodology.pdf>.

PREPARED STATEMENT OF LINDA COUCH

SENIOR VICE PRESIDENT FOR POLICY AND RESEARCH, NATIONAL LOW INCOME HOUSING COALITION

AUGUST 1, 2012

On behalf of the National Low Income Housing Coalition (NLIHC), I would like to thank Chair Menendez and Ranking Member DeMint for holding this important hearing. The Nation's need for the programs under discussion today is growing. We greatly appreciate your leadership on HUD's rental assistance programs and your commitment to the people they are intended to assist.

The National Low Income Housing Coalition (NLIHC) is dedicated solely to achieving socially just public policy that assures people with the lowest incomes in the United States have affordable and decent homes.

Our members include nonprofit housing providers, homeless service providers, fair housing organizations, State and local housing coalitions, public housing agencies, private developers and property owners, housing researchers, local and State Government agencies, faith-based organizations, residents of public and assisted housing and their organizations, and concerned citizens. NLIHC does not represent any sector of the housing industry. Rather, NLIHC works only on behalf of and with low income people who need safe, decent, and affordable housing, especially those with the most serious housing problems. NLIHC is funded entirely with private donations.

Need for Affordable Housing Is Growing

NLIHC analysis of American Community Survey data shows there were 9.8 million extremely low income (ELI) (households with incomes less than 30 percent of area median) renter households in 2010 and only 5.5 million units renting at prices they could afford, resulting in an absolute gap of 4.3 million units affordable to ELI households. In 2009, this gap was 3.9 million units. Because higher income households rent some of the units that ELI households could afford, the gap of affordable and available units for ELI households in 2010 was 6.8 million;¹ in 2009, it was 6.4 million.

These numbers are equally stark at the State level. In New Jersey, there is a shortage of more than 189,000 units affordable and available to ELI households. In South Carolina, the shortage of affordable and available units for ELI households is more than 79,000.

HUD's Office of Multi-Family Housing Programs/Federal Housing Administration Deputy Assistant Secretary Marie Head testified in the House in June that increased market demand for new rental housing is directly attributable to the fact that "as many as 3.9 million former homeowners have been displaced by mortgage distress and are now in the rental market," and the entrance of "as many as 4.3 million new renter households" into the rental housing market.²

One result of this influx is that the percentage of renter households paying more than half of their income on rent and utilities increased across all income groups between 2009 and 2010, with extremely low income and very low income (VLI) (households with incomes less than 50 percent of area median) renters most affected. Seventy-six percent of ELI renters and 36 percent of VLI renters had a severe housing cost burden in 2010, compared with 74 percent and 34 percent, respectively, in 2009.³ In New Jersey, households with annual incomes below \$26,607 are considered ELI; in South Carolina, households with incomes below \$17,175 are.

In New Jersey, the public housing program serves more than 40,000 families with an average annual income of \$15,746, and the voucher program assists almost 63,000 households, with an average annual income of \$15,790. In South Carolina, the State's more than 23,000 rental assistance vouchers serve households with an average annual income of \$11,000; the average annual income of the State's 15,000 public housing households is about \$10,400. Without HUD assistance, we can be assured that many of these extremely low income families would be severely cost bur-

¹ NLIHC. *Housing Spotlight: The Shrinking Supply of Affordable Housing*. February 2012. <http://nlihc.org/library/housingspotlight/2-1>

² June 7, 2012. House Financial Services Subcommittee on Insurance, Housing, and Community Opportunity hearing. "Oversight of Federal Housing Administration's Multifamily Insurance Programs". <http://financialservices.house.gov/Calendar/EventSingle.aspx?EventID=297671>

³ NLIHC. *Housing Spotlight: The Shrinking Supply of Affordable Housing*. February 2012. <http://nlihc.org/library/housingspotlight/2-1>

dened or, indeed, would join the ranks of the Nation's homeless population, which totals more than 630,000 on any given night.⁴

As the National Alliance to End Homelessness' annual "State of Homelessness in America 2012" pointed out in January of this year, "Homelessness is a lagging indicator, and the effects of the poor economy on the problem are escalating and are expected to continue to do so over the next few years."⁵ It is NLIHC's hope that improvements made to HUD's housing programs by broad authorizing legislation will result not only in efficiencies that increase the number of households served, but also in greater Congressional support so that homelessness can be prevented and ended in the United States.

NLIHC held a summit of voucher stakeholders in 2005, in response to upheaval in the housing choice voucher program instigated in the spring of 2004 by a flawed allocation by HUD of otherwise adequate voucher renewal funding. This left many agencies with insufficient funds and ultimately caused the loss of more than 100,000 vouchers nationwide. Sixty-six people attended, including voucher holders and representatives from advocacy groups, public housing agencies and their trade groups, affordable housing developers, housing finance agencies, HUD, the Office of Management and Budget, financial institutions and congressional policy and appropriations staff from the House and Senate and both sides of the aisle.

Many of the recommendations made by those at the voucher summit have been included in various iterations of the Section 8 Voucher Reform Act, the Section 8 Savings Act, and the Affordable Housing and Self-Sufficiency Improvement Act. These include recommendations regarding income targeting, rent simplification, portability, inspections, project-based vouchers and enhanced vouchers.

As we did in 2005, we continue to believe there are many reasons for Congress to enact broad housing reforms. Since 2005, Congress has worked on various versions of the Section 8 Voucher Reform Act, the Section 8 Savings Act, and the Affordable Housing and Self-Sufficiency Improvement Act. The HUD programs we come together to talk about today are critical to meeting the needs presented by these data. The housing choice voucher, project-based Section 8 and public housing programs are all deeply income targeted and all provide housing stability even if individual household incomes fluctuate with changing circumstances.

In the fall of 2011, NLIHC worked with other national organizations to coordinate a letter, signed by more than 810 local and national organizations, urging the Senate Committee on Banking, Housing, and Urban Affairs to act expeditiously on housing reform legislation. "The savings and efficiencies created by this good Government bill are needed as soon as possible," the letter said.⁶

We are encouraged by this hearing and hope legislation can be enacted this year that:

- Improves the programs from the perspective of assisted households
- Results in savings and efficiencies
- Stabilizes voucher renewal funding

Legislation That Improves the Programs From Perspective of Assisted Households

NLIHC supports several policy changes that would improve the programs:

- Encourage increased earned income while maintaining Brooke

Upon increases in earned income, NLIHC supports reforms so that most families would not have to recertify their incomes in between annual income certifications. This would allow families to hold on to 100 percent of their increased earned income until their next annual income certification. PHAs and owners, under various versions of the legislation, would base rents on prior year income. Again, this could encourage increased earned income by residents.

Early versions of housing reform legislation would expand the now-narrow Earned Income Disregard to all tenants, allowing the first 10 percent of earned income to be disregarded for purposes of establishing household rents. Unfortunately, and for cost reasons, that provision has not been in recent versions of the housing reform bill and the existing, limited Earned Income Disregard for some residents is eliminated. NLIHC supports expanding the Earned Income Disregard.

Any housing reform legislation should also revise the frequency of income recertifications for families on fixed incomes. NLIHC supports provisions that would re-

⁴"State of Homelessness in America 2012". National Alliance To End Homelessness. Washington, DC. <http://www.endhomelessness.org/content/article/detail/4361/>

⁵*Ibid.*

⁶See, letter and NLIHC press release, "Advocates Urge U.S. Senate To Act Now on Voucher Reform Legislation". September 21, 2011. <http://nlihc.org/press/releases/9-21-11>

quire families on fixed incomes to recertify their incomes once every 3 years, instead of annually as is now the case. This could lead to less paperwork for fixed income households, and administrative savings for PHAs and owners.

Critically, these simplifications to the rent-setting process can be enacted without jeopardizing the Brooke Amendment, named after former United States Senator Edward Brooke (R-MA). The Brooke Amendment caps tenant rents at a percentage of adjusted income, today 30 percent, while continuously connecting each household's rent to its own income. This ensures affordability and housing stability for each household. If we cannot rely on every household's rent being affordable, then there is little value in any housing assistance program.

- Payment standard for people with disabilities

To reduce administrative tasks as well as improve the effectiveness of the voucher program for people with disabilities, NLIHC supports provisions giving PHAs the authority to increase the payment standard to 120 percent without having to seek HUD approval as a reasonable accommodation to persons with disabilities.

- Expanding affordable rental stock by improving project-basing of vouchers

NLIHC supports provisions that have been in most versions of housing reform legislation that would improve how vouchers could be project-based into properties, allowing otherwise unaffordable units to meet the affordable housing needs of the lowest income households.

There are several provisions to improve the project-basing of vouchers, all of which NLIHC supports including in any housing reform bill:

1. Changing the limitation on vouchers that can be project-based from 20 percent of an agency's voucher funding to 20 percent of an agency's authorized vouchers.
2. Allowing a PHA to use an additional 5 percent of authorized vouchers to serve persons with disabilities, elderly households or homeless populations or be used in areas where vouchers are hard to use.
3. Increasing the number of units a PHA can provide with project-based voucher assistance in smaller properties.
4. Increasing the maximum contract term for project-based vouchers from 15 to 20 years.

Improvement to the project-basing of vouchers can help programs like the Low Income Housing Tax Credit (LIHTC) serve more extremely low income households in an affordable way. Without additional subsidies, often in the form of a Housing Choice Voucher, Low Income Housing Tax Credit units are simply not affordable to extremely poor households. Vouchers, and project-based vouchers, ensure stable housing as a family's income fluctuates. Doubling up Federal subsidies in LIHTC units by adding a voucher makes these units affordable for the households with the greatest housing needs in the United States. Without additional subsidy, the Nation's largest subsidized affordable housing program is simply not affordable or viable for ELI households.

Recent research⁷ from data collected per the Housing and Economic Recovery Act of 2008 reveals that there are indeed ELI households served by the LIHTC program, about 43 percent of units assisting such households.

It appears, however, based on data provided by the same report, that without rental assistance these extremely poor households are paying more than half their incomes for their housing costs, thus meeting HUD's definition of households with "severe housing cost burden." The data presented by the report show that 31 percent of ELI renters in LIHTC units receive no rental assistance, Housing Choice Vouchers or otherwise. The report also presents data that fully 30.6 percent of ELI households in LIHTC units are severely cost burdened, paying more than half of their income for rent in these units. Voucher assistance attached to these units through the project-basing of vouchers, or provided to these tenants directly with housing choice vouchers, brings housing affordability and stability to these households.

- Other provisions to improve the programs from the perspective of assisted households

⁷ O'Regan, Katherine O. (NYU Wagner Graduate School and Furman Center) and Keren Horn (University of Massachusetts, Boston). *What Can We Learn About the Low Income Housing Tax Credit Program by Looking at the Tenants?* July 1, 2012. http://nlihc.org/sites/default/files/LIHTC_Tenant_Report_2012.pdf

NLIHC also supports including provisions from past housing reform bills that would direct HUD to develop new portability regulations that minimize billing and administrative barriers to portability, provide public housing agencies and HUD with tools to address excessive rent burdens as well as concentrations of vouchers in higher-poverty areas by adjusting payment standards, and allow vouchers to pay for home payment (since the Quality Housing and Work Responsibility Act, vouchers only pay for rental of land). All of these provisions will improve people's access to their communities of choice.

Legislation That Results in Savings and Efficiencies

- Overall savings

Any version of housing reform legislation saves Federal resources, ranging from around \$700 million to \$1 billion over 5 years. These are tremendous savings, the vast majority of which are uncontroversial.

- Definition for deep income targeting

A major source savings from any housing reform bill would be a change to how targeting of assistance to extremely low income households could be carried out. Today, these large HUD programs must target a certain percent of new housing assistance each year to extremely low income households. NLIHC supports reforms that would expand this deep income targeting category to be the greater of households with incomes below 30 percent of area median income (extremely low income) or the Federal poverty line. This will help target assistance to very poor households in rural areas, where incomes overall are low.

- Rent simplifications

In addition to the rent simplification provision discussed above, requiring fixed income households to recertify incomes every 3 years instead of annually, housing reform legislation can do much to simplify the rent setting process. NLIHC also supports the ability of PHAs and owners to rely on other Federal means-tested assistance programs, including the Supplemental Nutrition Assistance Program, to verify tenant income.

Simplifying the deduction of medical and related expenses has long been a goal of housing reform legislation. Raising the percent of income that must be exceeded before unreimbursed medical or related expenses are deducted from income is one way that versions of housing reform legislation have simplified the complicated rent-setting process. As the House and Senate have always supported, any such increase in the threshold for deducting expenses must be coupled with an increase in the standard deduction for elderly families and families with disabilities. Hardship provisions to protect households with outlier medical expenses are also good policy.

- Create efficiencies; do not weaken accountability

NLIHC is interested in balancing efforts to create efficiencies with retaining the programs' accountability, both to local communities and to Congress and HUD. While efficiencies can bring savings through reduced program costs, we urge caution when considering exempting agencies from standards HUD and Congress use today to measure public housing agency performance. Even exempting the smallest agencies, as some housing authority groups support, from many Section 8 Management Assessment Program indicators would remove accountability on key indicators like accuracy of payment standard calculations, use of all available vouchers and expansion of housing choice from agencies that administer a tenth of the Nation's vouchers. Congress's understanding of how the voucher program, under such circumstances, was actually meeting the Nation's housing needs would be incomplete if such reforms were enacted. NLIHC believes that such changes would put rental assistance programs at risk of reduced funding in the future as Congress's understanding of their use and impact fade.

Legislation That Stabilizes Voucher Renewal Funding

- Voucher Renewal Funding

The need for clear direction to HUD on the allocation of voucher renewal funding was a primary reason for the development of this legislation several years ago. The viability and credibility of the voucher program is rooted in a stable, sufficient and reliable voucher renewal funding policy. NLIHC supports authorizing language whereby the annual appropriation of each agency administering vouchers is based on actual leasing and cost data from the last calendar year, with various adjustments, including for tenant-protection, project-based and ported vouchers. NLIHC also supports policies that would support agencies' over-leasing of vouchers.

NLIHC supports offset and reallocation policies that will bring additional stability to the program. Offset policies in previous versions of housing reform legislation, supported by NLIHC, would allow HUD to offset a PHA's voucher allocation by the amount its reserves exceeded 6 percent. The HUD Secretary would then be authorized to use these offsets for a variety of purposes, including for increased costs due to portability, significant increases in voucher renewal costs resulting from unforeseen circumstances and reallocating to PHAs to avoid or reduce any pro-rations of renewal funding.

NLIHC also supports an advance mechanism to PHAs that could act as a safeguard for agencies that experience a temporary shortfall in funds. NLIHC supports provisions that allow a PHA to request, during the last quarter of the calendar year, up to 2 percent of its allocation to pay for additional voucher costs, including costs related to temporary over leasing. NLIHC believes that this will give some PHAs the assurance they need to increase their voucher utilization rates. These advances would have to be repaid and could not occur in 2 consecutive years.

Minimum Rents

NLIHC does not believe that increasing minimum rents is needed to create a robust housing reform bill. The latest House draft bill is an improvement over earlier versions, especially because it would greatly improve hardship exemptions from minimum rents for households and because it offers housing agencies and owners the ability to have minimum rents lower than the bill's \$69.45 a month for good cause.

The House's latest proposal impacts households with incomes of less than \$2,800 a year. While it may seem hard to imagine that there are households with incomes so low, the reality is that these households exist and the programs keeping them off the street, out of the back seats of cars at night and out of shelters, are HUD's voucher, public housing and project-based Section 8 programs. NLIHC supports the House draft bill's improvements to hardship exemptions. We continue to oppose any increase in minimum rents, which by definition only impact the lowest income households.

NLIHC was shocked and disappointed that the Administration requested increased minimum rents in its FY13 budget request, which it said could generate \$150 million in revenue. "The Budget Control Act created spending limits that are so unworkable that the Federal Government is reduced to picking the pockets of the poorest of the poor. It is Scrooge-like." NLIHC's President and CEO Sheila Crowley said in a press release on February 13.⁸

Bigger Reforms in the Future

NLIHC also supports additional policy proposals to improve the voucher program. We are very pleased that HUD is moving forward with its Small Area Fair Market Rent (SAFMR) demonstration. The SAFMR demonstration project will determine FMRs at the ZIP code level, so payment standards will more closely reflect local market conditions and rents by neighborhood. As noted in a 2012 NLIHC paper, *Affordable Housing Dilemma: the Preservation vs. Mobility Debate*, "Going to small area FMRs would cause 'such a redistribution of poor people over time in metro areas, because there's so many rental units that would be accessible all of a sudden that aren't accessible now.'" HUD will conduct an evaluation of the demonstration program to determine if using SAFMRs will increase neighborhood choice for program participants and increase program efficiency overall. NLIHC is eager to see HUD's evaluation of the SAFMR demonstration. We are confident that the results will show that the use of SAFMRs should be adopted nationwide.

Another potential bright spot in the Nation's ability to simplify the administration of vouchers is to encourage PHAs to join forces and regionalize voucher administration. Regionalizing voucher administration, as has been done in several communities across the country, will result in greater housing choice for tenants and greater program efficiencies for administrators. Voucher holders in the metropolitan Washington, DC, area, for example, are restricted from moving freely within our housing market because of PHA geographic boundaries. What makes the most sense is for the jurisdiction of the voucher administrator to match the jurisdiction of the overall housing market. The voucher program does not naturally do that today, but it should in the future.

⁸NLIHC. Press release: "President's Budget Request Creates Grim Outlook for Low Income Housing", February 13, 2012. <http://nlihc.org/press/releases/2-13-12>

⁹NLIHC. *Affordable Housing Dilemma: the Preservation vs. Mobility Debate*. May 2012. <http://nlihc.org/library/other/periodic/dilemma>

NLIHC also supports creating Federal source of income laws, which would basically prohibit a landlord or property manager from denying housing to a prospective tenant because of precisely how they would pay their rents, or the source of their income. According to the Poverty & Race Research Action Council (PRRAC), 13 States and dozens of cities have some version of source of income protections.¹⁰ Federal source of income protections could expand the properties and communities where voucher holders can choose to live. According to an analysis of research on discrimination in the voucher program in this same report, PRRAC notes that discrimination against voucher holders contributes to peoples' inability to use rental assistance vouchers in their neighborhoods of choice.

A real breakthrough would be to make assistance from the housing choice voucher program an entitlement to those households eligible for it, or at least for certain populations. Today, the only housing entitlement programs are for homeowners, and the vast majority of those resources assist high income households. Moving the voucher program into the world of entitlements, at least for certain populations, would demonstrate real commitment by Congress that everyone has a right to safe, decent, and affordable housing.

Moving to Work

No discussion of housing reform legislation would be complete without consideration of the Moving to Work (MTW) demonstration program. The demonstration, authorized in 1996, has been an exercise in broad regulatory and statutory flexibility for a few dozen housing agencies and in growing frustration for groups like NLIHC, which seek to advance housing solutions for the lowest income people. The frustration comes from the inability of NLIHC, or any other entity, to know what the impacts of these broad statutory and regulatory flexibilities have been on the current and future low income residents of these housing authorities, and on the physical and financial health of these housing authorities. Yet, housing agencies continue to seek participation in the MTW program, hopeful that participation will bring salvation from years of chronic underfunding in the public housing operating and capital funds and voucher administrative fees.

NLIHC joined several national organizations and HUD early this year to see whether a compromise could be reached on MTW, a compromise acceptable enough to all that broader housing reform legislation could move forward. This "stakeholder" group did eventually turn months of hard decisions and compromises into an agreement on MTW expansion, which was included in the April 13 version of the House's draft Affordable Housing and Self Sufficiency Improvement Act.

The stakeholder agreement on MTW would allow up to 500,000 units administered by high-capacity PHAs to be included in a "basic" MTW program. Units in basic MTW would have the flexibility to streamline administrative procedures. Up to 25 agencies could also participate in an "enhanced" MTW program, which would have the ability to implement harmful policies, like rent reform, work requirements and time limits only if doing so is part of rigorous evaluation protocols. For all, income targeting, resident rights and housing affordability would be protected to a significantly greater extent than in the current demonstration sites.

While NLIHC has agreed to this carefully crafted version of MTW expansion, history shows that MTW expansion has resulted in the stalling of housing reform legislation for years. NLIHC would strongly support moving forward with voucher reform legislation without an MTW title. MTW legislation could be considered separately, while the significant savings and efficiencies of a broader housing reform bill could be taken advantage of now.

Some versions of housing reform legislation, including the most recent House draft, have included other demonstrations as well (i.e., a rent policy demonstration and an economic security demonstration). HUD is already conducting a rent policy demonstration and should not need additional authority to complete this work. The goals of the economic security demonstration, and its cost of \$25 million, could be brought into whatever form the MTW demonstration eventually takes, taking on all the protections for current and future residents, evaluation components, and size and duration limitations of MTW that would be necessary to test hypotheses while protecting people and assets. NLIHC opposes these additional, standalone demonstrations.

¹⁰Poverty & Race Research Action Council. *Keeping the Promise: Preserving and Enhancing Housing Mobility in the Section 8 Housing Choice Voucher Program*. March 2011. <http://prrac.org/pdf/AppendixB-Feb2010.pdf>

National Housing Trust Fund

While enactment of housing reform legislation would generate hundreds of millions in savings in the near future, NLIHC also encourages Members of this Subcommittee to support capitalization of a National Housing Trust Fund, which Congress authorized in 2008. The National Housing Trust Fund, coupled with the stabilization of HUD's rental assistance programs by housing reform legislation, could end homelessness in the United States. Each State has a shortage of affordable and available units for ELI households. Housing reform legislation could stabilize existing programs and give Congress the assurance that these highly efficient programs deserve more Federal resources. But, we also need to dramatically increase the actual number of units affordable to ELI households. The National Housing Trust Fund is the mechanism to accomplish this. NLIHC looks forward to working with the Senate on ways to capitalize the NHTF.

Thank you for considering our testimony.

ALABAMA

Senators: Jeff Sessions and Richard C. Shelby

Many renters in Alabama are extremely low income and face a housing cost burden. Across the state, there is a deficit of rental units both affordable and available to extremely low income (ELI) renter households, i.e. those with incomes at 30% or less of the area median income (AMI).

Last updated: 7/26/12

NATIONAL LOW INCOME HOUSING COALITION STATE HOUSING PROFILE

HOUSING COST BURDEN BY INCOME GROUP

Households spending more than 30% of their income on housing costs and utilities are **cost burdened**; those spending more than half of their income are considered **severely cost burdened**.

Income Group	Severely Cost Burdened	Cost Burdened
Extremely Low Income (0-30% of AMI)	86%	74%
Very Low Income (31-50% of AMI)	30%	48%
Low Income (51-80% of AMI)	6%	8%
Very Low Income (81-90% of AMI)	1%	1%
Very Low Income (91-100% of AMI)	1%	1%

Source: NLIHC calculation of 2010 American Community Survey Public Use Microdata Sample (PUMS) housing file.

HOUSING SHORTAGE BY INCOME THRESHOLD

The lower the income threshold, the greater the shortage of affordable and available units per 100 renter households.

Income Threshold	Units per 100 Renter Households
0-50% of AMI	109
0-30% of AMI	70
0-30% of AMI	38

Source: NLIHC calculation of 2010 American Community Survey Public Use Microdata Sample (PUMS) housing file.

RENTAL UNITS AVAILABLE TO ELI RENTER HOUSEHOLDS

- Less than 49 units per 100 ELI households
- Between 49 - 64 units per 100 ELI households
- Above 64 units per 100 ELI households

Source: NLIHC calculation of 2010 Census of Housing, Alabama, American Housing Survey (AHS) data.

KEY FACTS

30% of all households in this state are renters

144,718 OR **27%** of renter households are extremely low income

89,840 Shortage of units affordable and available for extremely low income renters

\$12.50 State Housing Wage
The amount a renter household needs to earn per hour to afford a two-bedroom unit at the 2012 HUD-determined Fair Market Rent

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NATIONAL LOW INCOME HOUSING COALITION
STATE HOUSING PROFILE

NEW JERSEY

Senators: Frank R. Lautenberg and Robert Menendez

Many renters in New Jersey are extremely low income and face a housing cost burden. Across the state, there is a deficit of rental units both affordable and available to extremely low income (ELI) renter households, i.e. those with incomes at 30% or less of the area median income (AMI).

Last updated: 7/28/12

AFFORDABLE & AVAILABLE UNITS FOR ELI RENTER HOUSEHOLDS

HOUSING COST BURDEN BY INCOME GROUP

Households spending more than 30% of their income on housing costs and utilities are **cost burdened**; those spending more than half of their income are considered **severely cost burdened**.

Income Group (of AMI)	Cost Burdened	Severely Cost Burdened
Extremely Low Income (0-30% of AMI)	87%	76%
Very Low Income (31-50% of AMI)	60%	45%
Low Income (51-80% of AMI)	12%	1%
High Income (81%+ of AMI)	1%	0%

Source: NLIHC calculation of 2010 American Community Survey Public Use Microdata Sample (PUMS) housing file.

HOUSING SHORTAGE BY INCOME THRESHOLD

The lower the income threshold, the greater the shortage of affordable and available units per 100 renter households.

Income Threshold	Shortage (units per 100 renter households)
0-50% of AMI	88
0-30% of AMI	41
0-30% of AMI	30

Source: NLIHC calculation of 2010 American Community Survey Public Use Microdata Sample (PUMS) housing file.

KEY FACTS

- 34%** of all households in this state are renters
- 268,149** OR **25%** of renter households are extremely low income
- 189,044** Shortage of units affordable and available for extremely low income renters
- \$25.04** State Housing Wage
The amount a renter household needs to earn per hour to afford a two-bedroom unit at the 2012 HUD-determined Fair Market Rent

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NATIONAL LOW INCOME HOUSING COALITION
STATE HOUSING PROFILE

SOUTH CAROLINA

Senators: Jim DeMint and Lindsey Graham

Many renters in South Carolina are extremely low income and face a housing cost burden. Across the state, there is a deficit of rental units both affordable and available to extremely low income (ELI) renter households, i.e. those with incomes at 30% or less of the area median income (AMI).

Last updated: 7/26/12

KEY FACTS

31%
of all households in this state are renters

139,559
OR
25%
of renter households are extremely low income

79,881
Shortage of units affordable and available for extremely low income renters

\$13.43
State Housing Wage
The amount a renter household needs to earn per hour to afford a two-bedroom unit at the 2012 HUD-determined Fair Market Rent

HOUSING COST BURDEN BY INCOME GROUP

Households spending more than 30% of their income on housing costs and utilities are **cost burdened**; those spending more than half of their income are considered **severely cost burdened**.

Income Group	Cost Burdened	Severely Cost Burdened
Extremely Low Income (0-30% of AMI)	77%	91%
Very Low Income (31-50% of AMI)	35%	46%
Low Income (51-80% of AMI)	6%	10%
Fair-Low Income (81-100% of AMI)	1%	1%

Source: NLHC calculation of 2010 American Community Survey Public Use Microdata sample (PUMS) housing file

HOUSING SHORTAGE BY INCOME THRESHOLD

The lower the income threshold, the greater the shortage of affordable and available units per 100 renter households.

Income Threshold	Shortage of units per 100 renter households
0-50% of AMI	110
0-60% of AMI	69
0-30% of AMI	43

Source: NLHC calculation of 2010 American Community Survey using the Atlanta-based (ATL) housing file

ELI AFFORDABLE & AVAILABLE UNITS
FOR ELI RENTER HOUSEHOLDS

- Less than 45 units per 100 ELI households
- Between 45-67 units per 100 ELI households
- Above 67 units per 100 ELI households

Source: NLHC calculation of 2010 Census of Housing, Affordable Housing Strategy (AHAS) data

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**NATIONAL LOW INCOME HOUSING COALITION
STATE HOUSING PROFILE**

SOUTH DAKOTA

Senators: Tim Johnson and John Thune

Many renters in South Dakota are extremely low income and face a housing cost burden. Across the state, there is a deficit of rental units both affordable and available to extremely low income (ELI) renter households, i.e. those with incomes at 30% or less of the area median income (AMI).

Last updated: 7/26/12

AFFORDABLE AND AVAILABLE UNITS FOR EXTREMELY LOW INCOME HOUSEHOLDS

- Insufficient data
- Less than 58 units per 100 ELI households
- Between 58 - 87 units per 100 ELI households
- Above 87 units per 100 ELI households

Source: NLHC (calculations of 2010 2011 Low Income Housing Affordability Survey) (2012) (4/12/12)

HOUSING COST BURDEN BY INCOME GROUP

Households spending more than 30% of their income on housing costs and utilities are **cost burdened**; those spending more than half of their income are considered **severely cost burdened**.

Income Group	Cost Burdened	Severely Cost Burdened
Extremely Low Income (0-30% of AMI)	59%	62%
Very Low Income (31-50% of AMI)	27%	17%
Low Income (51-80% of AMI)	0%	0%
New Low Income (81-99% of AMI)	0%	3%
New Low Income (100% of AMI)	0%	0%

Source: NLHC (calculations of 2010 2011 Low Income Housing Affordability Survey) (2012) (4/12/12)

HOUSING SHORTAGE BY INCOME THRESHOLD

The lower the income threshold, the greater the shortage of affordable and available units per 100 renter households.

Income Threshold	Shortage (units per 100 renter households)
0-50% of AMI	108
0-50% of AMI	91
0-30% of AMI	46

Source: NLHC (calculations of 2010 2011 Low Income Housing Affordability Survey) (2012) (4/12/12)

KEY FACTS

- 32%** of all households in this state are renters
- 28,980** OR **29%** of renter households are extremely low income
- 15,660** Shortage of units affordable and available for extremely low income renters
- \$11.52** State Housing Wage
The amount a renter household needs to earn per hour to afford a two-bedroom unit at the 2012 HUD-determined Fair Market Rent

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**RESPONSES TO WRITTEN QUESTIONS OF SENATOR SCHUMER
FROM KEITH KINARD**

Q.1. Improvements to the Project-Base Voucher Program:

The Project-Based Voucher program is a unique tool that a PHA can use to help create or redevelop affordable housing. A PHA that operates a PBV program can use it to facilitate the redevelopment of existing assisted housing or use to create mixed-income housing in areas that are being targeted for community redevelopment. The Affordable Housing and Self Sufficiency Improvement Act, currently pending in the House Financial Services Committee makes changes to the program that would enable a PHA to use the PBV program to target vulnerable populations, provide 100 percent assistance to small properties and provide additional assistance to properties located in high-cost markets.

Do you support the changes the Affordable Housing and Self Sufficiency Act makes the project-based voucher program? How will these changes help you better serve low-income families in your community?

A.1. Yes, CLPHA supports the changes that the Affordable Housing and Self Sufficiency Act (AHSSIA) would make to the project-based voucher program. The project-based voucher program is an important tool in the redevelopment and the rehabilitation of our Nation's public housing stock and the changes that AHSSIA makes to the program will allow more housing authorities to utilize this tool. Changing the percentage limitation so that it is based on authorized units, rather than funding levels, makes that limitation less of a moving target because it will be based on a more predictable measure and will facilitate housing authorities' maximizing project-basing authority. Raising the percentage limitation by 5 percent for projects that house families with veterans or that provide supportive housing to persons with disabilities or elderly persons will better enable and encourage housing authorities to target those vulnerable populations in their plans for project-basing. Increasing limits on both the percentage limitation and income mixing requirements in areas where vouchers are difficult to use will enable housing authorities to respond to their local market conditions more easily. Allowing site-based waiting lists will streamline administrative procedures considerably. AHSSIA's changes to the project-based voucher program will increase the supply of deeply subsidized hard units in communities that truly need them and make more affordable housing units available to vulnerable populations.

Another change to the project-based voucher program that CLPHA believes should be included in AHSSIA would be to allow housing authorities to attach project-based vouchers to housing authority-owned structures without following a competitive process. This would remove a step from the project-basing process that consumes a great deal of time without adding value. Additionally, CLPHA notes that in a previous iteration of the Section 8 reform bill, the project-based voucher percentage limitation was raised to 25 percent across the board, with an additional 5 percent targeted to vulnerable households on top of that raised threshold. CLPHA would prefer that any subsequent Section 8 reform bill return to that arrangement.

Newark has already benefited from the project-based voucher program, and any changes enacted that make the project-based voucher program more accessible to housing authorities will benefit low-income communities. Newark currently supports a 200-unit building for the elderly and individuals with disabilities through the project-based voucher program; the development receives 100 percent of its assistance through project-based vouchers. Without the funding flexibility that the project-based voucher program provides, Newark would not have been able to address the extensive capital needs of the building or to upgrade the general amenities available to residents. The development is now thriving and is a place that makes residents and Newark proud. Despite this success, Newark still hits administrative roadblocks in the current project-based voucher program when trying to structure redevelopment deals. For the past 4 years, Newark has been in the process of converting a 220-unit building for the elderly and individuals with disabilities to a Section Eight Project Based facility. We are still only 70 percent of the way through the conversion due to the administrative procedures of the program, in which Newark was required to competitively procure and ultimately award the project-based vouchers to ourselves. The provisions in AHHSIA relating to the project-based voucher program will not only bring welcome administrative relief, but the revitalization of public housing for the benefit of low-income communities.

Q.2. Exempting public housing redevelopment from counting against a PHA's project-base voucher funding limitation:

The PBV program limits a PHA from project-basing more than 20 percent of its voucher funding. Many PHAs around the country have been using the PBV program as a tool to redevelop and rehabilitate its public housing stock. Recently, HUD has embraced this principle by allowing a PHA to convert its public housing assistance to a 15 year PBV contract through the Rental Assistance Demonstration program. Unfortunately, for many PHA's unable to utilize the RAD program, the 20 percent limitation may still be a barrier for them to redevelop their own public housing stock. A simple solution would be to exempt public housing revitalization that a PHA undertakes from the 20 percent voucher-funding cap. This would then allow a PHA to continue to reposition its public housing stock and also continue to use the program in a manner that best serves the low-income households in the surrounding community.

Would you support a change to the project-base voucher program that would provide an exception to the 20 percent voucher funds limitation for PHAs that use the PBVs to redevelop its own public housing stock? Are there are other limitations or changes you would make to the RAD program that would make it easier for a PHA to redevelop public housing in a manner that protects the Federal investment and provides safe, decent housing for low-income households?

A.2. Yes, CLPHA supports a change to the project-base voucher program that would provide an exception to the 20 percent voucher limitation for all housing authorities that use the project-based vouchers to redevelop its own public housing stock. Project-based

vouchers have become an essential tool for housing authorities' efforts to meet their local community needs, especially for vulnerable populations that require supportive services. The lifting of the 20 percent cap will allow housing authorities—particularly those unable to participate in the Rental Demonstration Program (RAD)—the ability to preserve hard units for extremely vulnerable populations who might not be able to find a place to live in the private rental market.

Housing authorities that are able to participate in the RAD program will be better able to serve their communities because RAD incorporates a 20 percent cap exception and increases the percentage of vouchers that may be project-based in a single project. However, it would be easier for housing authorities to redevelop public housing under RAD if a greater percentage of vouchers could be project-based in a single project. This change would allow housing authorities to leverage their project-based vouchers more effectively in redevelopment deals, which would preserve and redevelop more units of public housing, and thus ultimately benefit low-income households that may not otherwise have access to affordable housing that is both safe and decent.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR SCHUMER
FROM DIANNE HOVDESTAD**

Q.1. Improvements to the Project-Base Voucher Program:

The Project-Based Voucher program is a unique tool that a PHA can use to help create or redevelop affordable housing. A PHA that operates a PBV program can use it to facilitate the redevelopment of existing assisted housing or use to create mixed-income housing in areas that are being targeted for community redevelopment. The Affordable Housing and Self Sufficiency Improvement Act, currently pending in the House Financial Services, makes changes to the program that would enable a PHA to use the PBV populations, provide 100 percent assistance to small properties and provide additional assistance to properties located in high-cost markets.

Do you support the changes the Affordable Housing and Self-Sufficiency Act makes to the project-based voucher program? How will these changes help you better serve low-income families in your community?

A.1. Yes, we support the changes the “Affordable Housing and Self-Sufficiency Improvement Act” (AHSSIA) makes to the project-based voucher program. Listed below is a summary of our position on the PBV provisions in the current draft of AHSSIA, as well as additional PBV legislative reforms we support in the December 1, 2010, version of the “Section Eight Voucher Reform Act” (SEVRA) as well as regulatory reforms stemming from enactment of the “Housing and Economic Recovery Act of 2008” (HERA).

The Sioux Falls Housing & Redevelopment Commission (SFHRC) has not, yet, exercised the option of project-basing a portion of its Section 8 Housing Choice Vouchers. The decision not to project-base Section 8 Vouchers is based several factors: First, SFHRC's waiting list is long—approximately 3.5 years from the time an application is received in SFHRC's office until funding is available under the Voucher program with currently over 3,700 households

on its waiting list. Most applicants want the option of locating a dwelling unit that meets their unique circumstances. The majority of voucher holders in Sioux Falls have been successful in locating units that meet their needs and HUD's criteria for approving a dwelling unit to be placed under a Section 8 Housing Assistance Payments Contract. It hasn't been necessary for SFHRC to project-base its vouchers in order to for a voucher holder to utilize their voucher.

Also, since SFHRC's waiting list is so long and most vouchers are utilized in a timely manner SFHRC cannot justify taking the vouchers "off-line" and holding them through turnover/attrition until a project was ready to be occupied. This would be denying rental assistance to a family that desperately needs it. While HUD's voucher HAP renewal formula does account for vouchers committed to a PBV development under an "Agreement to Enter Into a Housing Assistance Payments Contract", the Department's existing Section Eight Management Assessment Program (SEMAP) currently does not take this into account. As a result, Public Housing Authorities (PHA) that engage in the PBV program that have to take tenant-based vouchers "off-line" are penalized in their SEMAP scores.

Second, the unpredictability of annual housing assistance dollars makes it difficult to determine the number of vouchers that can be project-based. Currently, PHAs are allowed to project-base up to 20 percent of its tenant-based funding. It is difficult to strategically plan for project-basing vouchers when the pro-ration and the formula for determining renewal housing assistance payments dollars changes each year, depending on the language in the appropriations bill. In addition, the timeliness of HUD's notices of annual budget authority makes planning extremely challenging. For example, for calendar year 2008 SFHRC was not notified of its annual budget authority until March 14, 2008. The pro-ration was 101.453 percent; however, the formula included an offset for both Useable and Unusable Net Restricted Assets (NRA) which decreased available funding.

In 2009 SFHRC received notice of its annual budget authority for that calendar year on May 5, 2009. The pro-ration was .991 percent, again the formula included offsets of Usable and Unusable NRA.

On February 12, 2010, SFHRC was notified of its annual budget authority for calendar year 2010. The pro-ration was .995 percent, with no offset.

For calendar year 2011 SFHRC received notice of its annual budget authority on June 14, 2011. The pro-ration was 98.81 percent, with no offset. For the first time HUD included an allowance for Family Self-Sufficiency escrow deposits in the formula used for calculating housing assistance payments renewal dollars, which increased the dollars for housing assistance payments. Regrettably, this is no longer HUD's practice.

On March 1, 2012, SFHRC was notified of its annual budget authority for calendar year 2012. The pro-ration was .996 and an offset was included in the formula.

Although the 2.64 percent difference in pro-ration during these 5 years doesn't, on its face, appear to be much, it does impact the

number of households that can be served and, consequently if there would be monies available for the project-based vouchers. It is difficult for SFHRC to estimate the amount of annual renewal dollars it will receive as some years there are offsets, some years not.

AHSSIA: Percentage of PAH's ACC Units for Project-Basing Vouchers

Modifying existing laws, as proposed in AHSSIA, so that the project-based voucher program limitation is based on authorized units, instead of tenant-based funding levels, will be much simpler for PHAs and HUD to determine and track.

AHSSIA: Percent of Units That Can Have Project-Based Assistance in a PHA's Voucher Portfolio

AHSSIA modifies the current limitation on project-basing up to 25 percent of the units in a project to the greater of 25 percent of the units in a project or 25 units. In areas where vouchers are difficult to use; in census tracts where the poverty rate is 20 percent or less; to serve individuals and families that fall under the McKinney homeless definition; that house families with veterans or provide supportive housing to persons with disabilities AHSSIA would allow the PHA to project-base 25 units or 40 percent of the units in the project. Current regulations require a cumbersome process to determine which project should receive project-based vouchers. Multifamily projects in Sioux Falls tend to be 50 units or less. Under existing law, in projects with 50 units, the maximum number of vouchers that could be project-based is 12. The amount of work it would take to project-base the 12 vouchers is not cost effective. If the limitation is increased to greater than 25 percent or 25 units, or 40 percent of baseline units in areas described above it may become cost effective to go through the process for project-basing vouchers in certain instances.

Previous versions of this bill defined areas where tenant-based vouchers are difficult to use under HUD's existing definition of "success rate payment standard", as PHAs that: (1) established its payment standards at 110 percent of the 40th percentile FMR for a period of at least 6 months; and (2) established a policy of granting automatic extensions of voucher terms to at least 90 days; but (3) notwithstanding these actions, the PHA still has less than 75 percent voucher holder success rate in finding and leasing units. This definition of a tight housing market, where tenant-based vouchers are difficult to use, already has existing regulations and implementation for PBV program stakeholders. Creating an open-ended definition subject to formulation by HUD is unnecessary and given the Department's slow track record for implementing regulations would be imprudent. We recommend restoration of the above definition of units located in areas where tenant-based vouchers are difficult to use.

We also recommend exempting Public Housing assisted households in a development that is converted to Section 8 Project-based Voucher assistance from the percentage of their voucher portfolio that they can project-base. In addition, we recommend that PHAs with existing PBV contracts from conversions of Public Housing are "grandfathered."

Increasing the number of project-based vouchers would benefit the pro forma used to determine if a project is financially feasible. It may mean the difference between a project going forward or not.

AHSSIA: Income-Mixing Requirement

The simplification of PBV program income mixing requirements in AHSSIA for project-based developments by allowing PHAs to attach 100 percent of the dwelling units that serve elderly populations, persons that require supportive services and for projects that have 25 units or less would make the program easier to administer.

Downward HAP Pro-rations

Under AHSSIA, an initial Housing Assistance Payments Contract between a PHA and the owner of a project may be up to 20 years (compared with 15 years under current law), subject to availability of sufficient appropriated funds for the purpose of renewing expiring PBV contracts for assistance payments, as provided in appropriation Acts and in the PHAs' Annual Contributions Contract (ACC) with HUD. In the event of insufficient appropriated HAP funds, payments due under PBV contracts must take priority if other cost-saving measures that do not require the termination of an existing contract are available to the PHA. Currently, if PHAs' receive downward pro-rations in HAP funds for their tenant-based voucher programs, one of the measures available to PHAs to help prevent them from having to terminate HAP Contracts and Lease Agreements on behalf of existing voucher-assisted households, is to lower their voucher payment standards for newly admitted households upon turnover and for households relocating from one unit to another with the benefit of voucher assistance. In those instances, participants in the tenant-based voucher program pay between 30–40 percent of their income towards rent and utilities. Even though the PVB program is a subset of the tenant-based voucher program, all PBV-assisted households must pay no more than 30 percent of their income towards rent and utilities. In other words, when there is a downward pro-ratio in HAP, tenant-based voucher households described above, bear the full brunt of downward pro-rations.

We understand and appreciate how important it is that PBV Contracts receive 100 percent HAP pro-rations, even if the level of HAP appropriated funds results in a downward pro-ratio below 100 percent. However, PHAs that utilize a greater percentage of their portfolios to PBV assistance will be disproportionately harmed in their tenant-based voucher programs as a result of this provision in AHSSIA. In addition to the language in the bill, NAHRO recommends that PHAs also be provided the authority to help make up for downward pro-rations in HAP funds overall, to also opt to raise PBV-assisted households Total Tenant Payment (TIP) from 30 percent of their monthly adjusted income to between 30–40 percent of their monthly adjusted income like the tenant-based voucher program. Clearly this is a measure that would only be implemented under downward pro-rated HAP funds, as a way for all PHAs' program participants to share the burden of such action. Absent this change, PHAs that may have considered utilizing

and/or increasing the percentage of their units under the PBV program would face significant financial disincentives in doing so.

Additional PBV Program Legislative Reforms

Listed below is a summary of our position on additional PBV legislative reforms we supported in the December 1, 2010, version of the Section Eight Voucher Reform Act (SEVRA).

Site-Based Waiting Lists

A provision to permit owner-managed, site-based waiting lists, subject to PHA oversight and responsibility, and further subject to the protection of tenants displaced by rehabilitation.

Absolute Preference To Prevent Displacement of Existing Eligible Residents

Any family who resides in a dwelling unit proposed to be assisted under the PBV program or in a unit to be replaced by a proposed unit to be assisted under the program, is required to be given an absolute preference for selection for placement in the proposed unit, if the family is otherwise eligible for assistance.

Vouchers Project-Based in PHA Owned Public Housing Properties

A provision to permit PHAs to attach project-based vouchers to a PHA-owned Public Housing project or site without undergoing a competitive process. However, PHAs would have to reflect the project-based initiative in their "PHA Plan" and the units could not receive Public Housing funding. This process would not change eligibility rules under which PHA can project base their own units. PHAs would be responsible for any expenses such as Housing Quality Standards (HQS) inspections and rent reasonableness determinations.

HAP Contract Term

A provision that would allow the housing assistance payments contract between the owner of the project and the PHA to be 20 years.

Lease and Tenancy Provisions

A provision clarifying that lease and tenancy provision pertaining to Section 8 vouchers shall apply to project-basing of vouchers, except for requirements concerning the minimum lease term.

Enhanced Vouchers

A provision allowing enhanced vouchers at mortgage maturity for properties for enhanced vouchers on prepayment.

Transfer of Vouchers and Budget Authority

A provision to allow PHAs to transfer a portion of its vouchers and corresponding budget authority to other PHAs to be used to provide project-based assistance. The bill states that "HUD shall encourage such agreements and promptly execute the necessary and contract modifications.

Rents in Units Assisted by Housing Trust Fund

A provision to allow lower rents for vouchers in units assisted by a Housing Trust Fund, but only with the mutual agreement of the PHA and owner.

Additional PBV Program Regulatory Reforms

Attached for your review and consideration please find NAHRO's comments, on behalf of its members, regarding HUD's proposed rule titled: "The Housing and Economic Recovery Act of 2008 (HERA): Changes to the Section 8 Project-Based Voucher Programs" (Docket No. FR-5242P-01).

Conclusion

Mr. Chairman, as this Subcommittee seeks to advance a bill that not only makes sense substantively but politically, we urge you to consider and ultimately adopt a bill that hews closely to the December 1, 2010, version of SEVRA and reflects some of the more thoughtful and constructive provisions in AHSSIA that we identified today. We see no reason, given the measure of support that the December 1, 2010, version of SEVRA had and the AHSSIA bill for the most part now has, to either radically depart from language contained in these constructive approaches to reform—or worse to start from scratch. The time for discussion has passed; the time to act is now! With specific respect to AHSSIA, we are very pleased to see that your House colleagues made significant progress on a number of issues important to NAHRO, including to the HQS section, and also retained important language regarding the establishment of administrative fee rates by Congress. Certainly there is more that this Subcommittee can do to improve both bills as we have noted but, after almost 10 long years of fits and starts, there is no reason to undermine largely viable products that have many if not most program stakeholders on board.

On behalf of my colleagues at NAHRO, thank you again for the opportunity to come before you and express our opinions regarding this vitally important legislation. We look forward to working with you.



National Association of Housing and Redevelopment Officials

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July 16, 2012

Regulations Division, Office of General Counsel
 Department of Housing and Urban Development
 451 7th Street SW., Room 10276
 Washington, DC 20410-0500

Re: The Housing and Economic Recovery Act of 2008 (HERA): Changes to the Section 8 Tenant-Based Voucher and Section 8 Project-Based Voucher Programs [Docket No. FR-5242-P-01]

To Whom It May Concern:

We welcome the opportunity to comment on HUD's proposed rule regarding Section 8 Tenant-Based Voucher and Section 8 Project-Based Voucher programs rule, largely stemming from the enactment of the "Housing and Economic Recovery Act of 2008" (HERA). Except where noted in our comments, NAHRO concurs with HUD's regulatory implementation of Section 8 project-based and tenant-based program provisions enacted in HERA.

NAHRO represents more than 3,100 agencies and over 20,000 individual members and associates, and is the oldest and largest association serving housing and community development agencies for the provision of adequate and affordable housing and strong, viable communities for all Americans—particularly those with low- and moderate-incomes. Our members administer HUD programs such as Public Housing, Section 8 Housing Choice Vouchers, CDBG and HOME.

Reasonable Rents for LIHTC-Assisted Units Without Section 8 Assistance [§982.507(c)(2)]

HUD's proposed rule, 24 CFR §982.507(c) states that if a rent requested by a property owner exceeds the Low-Income Housing Tax Credit (LIHTC) rent for households not receiving Section 8 tenant-based or project-based voucher assistance, then a PHA is required to conduct a rent reasonableness determination in accordance with HUD's existing program regulations governing rent reasonableness, and the rent cannot exceed the lesser of the: (1) reasonable rent as determined pursuant to a rent comparability study, and (2) the payment standard established by the PHA for the unit size involved. This provision pertains to two main topics, one concerning whether or not a rent reasonableness determination is required, and another concerning the allowable rent level.

Betsy Martens, President; **Preston Prince**, CME, Senior Vice President; **Chris Lamberty**, PHM, Vice President-Housing; **Mary E. Paumen**, Vice President-International; **Paul Purcell**, Vice President-Community Revitalization and Development; **Alan D. Styles**, Vice President-Commissioners; **Paula G. Thompson**, PHM, Vice President-Member Services; **Deborah E. Wilson**, Vice President-Professional Development; **Saul N. Ramirez, Jr.**, Chief Executive Officer

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Whether or Not a Rent Reasonableness Determination by the PHA is Required

Under HERA, PHAs are not required to conduct a rent reasonableness determination (in accordance with the existing regulations for Section 8 tenant-based and voucher-based programs) if the initial rent or rent requested at subsequent intervals, is equal to or less than the rent for other comparable units receiving tax credits or assistance in the project for units that are not occupied by Section 8 tenant-based or project-based assisted households. It would be helpful if this point was clarified in HUD's final rule.

To substantiate our comment, please refer to subparagraph (a)(2) regarding Voucher Program Rent Reasonableness in HERA, Sec. 2835 - Other HUD Programs Section 8 Assistance - which states:

"Section 8(o)(10) of the United States Housing Act of 1937 (42 U.S.C. 1437f(o)(10)) is amended by adding at the end the following new subparagraph:

"(F) TAX CREDIT PROJECTS.—In the case of a dwelling unit receiving tax credits pursuant to section 42 of the Internal Revenue Code of 1986 or for which assistance is provided under subtitle A of title II of the Cranston Gonzalez National Affordable Housing Act of 1990, for which a housing assistance contract not subject to paragraph (13) of this subsection is established, rent reasonableness shall be determined as otherwise provided by this paragraph, except that—

"(i) comparison with rent for units in the private, unassisted local market shall not be required if the rent is equal to or less than the rent for other comparable units receiving such tax credits or assistance in the project that are not occupied by families assisted with tenant-based assistance under this subsection;..."

Allowable Rent Level

The section titled, "Rent to owner: Reasonable rent" under HUD's proposed rule [§ 982.507"(c)(2)] states, "[i]f the rent requested by the owner exceeds the LIHTC rents for non-voucher families, the PHA must perform a rent comparability study in accordance with program regulations and the rent shall not exceed the lesser of the: (i) Reasonable rent as determined pursuant to a rent comparability study and (ii) the payment standard established by the PHA for the unit size involved."

With the exception of the intersection of reductions in annual FMR values by five percent or more in lease terms subsequent to the initial voucher-assisted lease, under HERA, the initial rent requested or the rent at intervals during subsequent lease terms, would not be "rent reasonable" if it exceeds the greater of: 1) the rent for other comparable units receiving such tax credits or assistance in the project for units that are not occupied by Section 8 tenant-based or project-based assisted households; or 2) a PHA's payment standard for an applicable unit size. Under HERA, there could be a scenario where the initial rent requested or the rent at intervals during subsequent lease

terms would be “rent reasonable” if it is equal to the greater of 1) the rent for other comparable units receiving such tax credits or assistance in the project for units that are not occupied by Section 8 tenant-based or project-based assisted households; or 2) a PHA’s payment standard for an applicable unit size. It would be helpful if this point was clarified in HUD’s final rule.

To substantiate our comment, please refer to subparagraph (a)(2) regarding Voucher Program Rent Reasonableness in HERA, Sec. 2835 - Other HUD Programs Section 8 Assistance – states:

“Section 8(o)(10) of the United States Housing Act of 1937 (42 U.S.C. 1437f(o)(10)) is amended by adding at the end the following new subparagraph:

(F) TAX CREDIT PROJECTS.—In the case of a dwelling unit receiving tax credits pursuant to section 42 of the Internal Revenue Code of 1986 or for which assistance is provided under subtitle A of title II of the Cranston Gonzalez National Affordable Housing Act of 1990, for which a housing assistance contract not subject to paragraph (13) of this subsection is established, rent reasonableness shall be determined as otherwise provided by this paragraph, except that—...

“... (ii) the rent shall not be considered reasonable for purposes of this paragraph if it exceeds the greater of—

“(I) the rents charged for other comparable units receiving such tax credits or assistance in the project that are not occupied by families assisted with tenant-based assistance under this subsection; and

“(II) the payment standard established by the public housing agency for a unit of the size involved.”.

Extension Terms of HAP Contract [§982.507(c)(2)]

HUD’s proposed rule is inconsistent with the statutory language in HERA regarding cumulative terms on extending PBV HAP contracts, as well as with the intent of the statutory language.

Regarding the term of HAP contract extensions for the PBV program[§ 983.205(b)], HUD’s proposed rule states, “[a] PHA may agree to enter into an extension at the time of the initial HAP contract term or any time before expiration of the contract, for an additional term of up to 15 years if the PHA determines an extension is appropriate to continue providing affordable housing for low-income families. A HAP contract extension may not exceed 15 years. A PHA may provide for multiple extensions; however, in no circumstance may such extensions exceed 15 years, cumulatively...”

HUD’s interpretation of HERA also overlooks a number of important aspects of PBV program statutory language that were in place before HERA was enacted and that remain in place after its enactment. Section (a)(1) of HERA under section 2835 titled, “Other HUD

Programs – PHA Project-Based Assistance” amends 8(o)(13)(G) of the United States Housing Act of 1937 (42 U.S.C. 1437f(o)(13)). As amended under HERA, section 8(o)(13)(G) under existing law states:

A public housing agency may enter into a contract with the owner of a structure assisted under a housing assistance payment contract pursuant to this paragraph to extend the term of the underlying housing assistance payment contract for such period as the agency determines to be appropriate to achieve long-term affordability of the housing or to expand housing opportunities. Such contract may, at the election of the public housing agency and the owner of the structure, specify that such contract shall be extended for renewal terms of up to 15 years each, if the agency makes the determination required by this subparagraph and the owner is in compliance with the terms of the contract. Such a contract shall provide that the extension of such term shall be contingent upon the future availability of appropriated funds for the purpose of renewing expiring contracts for assistance payments, as provided in appropriations Acts, and may obligate the owner to have such extensions of the underlying housing assistance payment contract accepted by the owner and the successors in interest of the owner. A public housing agency may agree to enter into such a contract at the time it enters into the initial agreement for a housing assistance payment contract or at any time thereafter that is before the expiration of the housing assistance payment contract.

The overriding public policy objective of the existing PBV statutory language as well as amended by HERA, is that the cumulative number of years by which a PHA has the discretionary authority to extend an existing PBV HAP contract with the consent of the owner, depends upon a PHA’s informed judgment about what is reasonably appropriate in order to achieve long-term affordability of the housing or to expand housing opportunities. In all cases, a PHA’s judgment on this topic is governed by their assessment of whether or not under the terms contemplated for a PBV HAP extension, the dwelling units are of sufficient quality to comply with HUD’s Housing Quality Standards (HQS) through the duration of any extended period of the PBV HAP contract. The statutory language in HERA also states that “...such contract shall be extended for renewal terms of up to 15 years each...” Congress’ use of the word “terms,” and use of the word “each” to modify 15 years in the sentence above, demonstrates that Congress’ statutory language in HERA was not intended to limit a PHA to extend PBV HAP contracts to a “term” of up to 15 years exclusively.

Determining the Rent to Owner (§ 983.301)

The reasonable rent provision under HUD’s proposed PBV rule [§ 983.301(e)] states, “[t]he PHA shall determine the reasonable rent in accordance with § 983.303. The rent to the owner for each contract unit may at no time exceed the reasonable rent, except in cases where, upon redetermination of the rent to owner, the reasonable rent would result in a rent below the initial rent.”

Section 2835(a)(1)(E) of HERA which amended Section 8(o)(13)(I)(i) regarding rent adjustments states, “except that the contract may provide that the maximum rent permitted for

a dwelling unit shall not be less than the initial rent for the dwelling unit under the initial housing assistance payments contract covering the unit;...” The statutory language under HERA allows but does not require that the following stipulation be in the PBV HAP contract. However, if a PHA chooses to include this stipulation in the PBV HAP contract with the consent of the owner, the language in HERA requires that the provision stipulate the maximum rent permitted for a dwelling unit shall not be less than the initial rent for the dwelling unit under the initial housing assistance payments contract covering the PBV-assisted unit.

Reasonable Rent to Owner (§ 982.507)

The subsection regarding reasonable rent to owner [24 CFR § 982.507 (a)(2)] states, “the PHA must redetermine the reasonable rent: (i) Before any increase in the rent to owner; (ii) If there is a five percent decrease in the published FMR in effect 60 days before the contract anniversary (for the unit size rented by the family) as compared with the FMR in effect 1 year before the contract anniversary; or (iii) If directed by HUD. (3) The PHA may also redetermine the reasonable rent at any other time. (4) At all times during the assisted tenancy, the rent to owner may not exceed the reasonable rent as most recently determined or redetermined by the PHA.”

It is worth noting that HUD’s above regulations do not require change by the statutory language from HERA. The existing regulations which should remain in place under HUD’s current PBV rulemaking, only require that for purposes of property owner’s annual rent increase requests, PHAs must undertake rent reasonableness determinations if/when applicable FMRs decrease by five percent or more. This existing regulation, which should remain in place under HUD’s HERA-related rulemaking, does not require PHAs to lower PBV owners’ rents if/when applicable FMRs decrease by five percent or more, as has been directed by some HUD Field Offices in some instances over the years. The intent of this regulation [§ 982.507(a)(2)(iii)] is to allow PHAs to conduct rent reasonableness if warranted, but not for PHAs to necessarily lower the existing PBV rent in these circumstances.

Except in the circumstances described in our comments above regarding determining the rent to an owner (§ 983.301) concerning initial rents, if under the circumstances described above regarding decreases in FMR values of five percent or more a PHA receives a property owners’ annual rent increase request for a given unit but a PHA’s rent reasonableness determination justifies the existing PBV rent, then a PHA can maintain the existing PBV rent.

Except in the circumstances described in our comments above regarding determining the rent to an owner (§ 983.301) concerning initial rents, if under the circumstances described above regarding decreases in FMR values of five percent or more a PHA receives a property owners’ annual rent increase request for a given unit but a PHA’s rent reasonableness determination justifies a lower PBV rent, then a PHA can lower the PBV rent to the rent reasonable level but not lower than the initial rent.

Some HUD Field Office personnel have misinterpreted and/or misapplied the PBV regulations governing reasonable rents in the PBV program, which is why we believe that clarification of the proper implementation of this regulation is welcomed.

Removal of Unit from HAP Contract (24 CFR 983.211) and Continuation of Housing Assistance Payments (24 CFR 983.258)

HUD's proposed PBV rule describes when units are to be removed from the Housing Assistance Payment contract if a tenant's rent equals the total rent owed to owner under the assisted lease. HUD's proposed policy states the unit is to be removed from the PBV contract after 180 days has passed with no subsidy payment. Both of these proposed policies do not provide a logical option to return units to the PBV HAP contract if the unit becomes available and qualified again, if three years have lapsed since the beginning term of the PBV HAP contract. It would be beneficial to program participants if the units could be available to be re-added to the contract "anytime" the contract is still active.

Description of the PBV Program (§ 983.5) & Maximum Amount of PBV Assistance (§ 983.6)

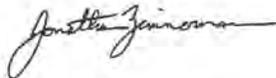
HUD's proposed PBV rule includes information collection from PHA's in the following areas:

- (1) The total amount of annual budget authority;
- (2) The percentage of annual budget authority available to be project-based; and
- (3) The total amount of annual budget authority the PHA is planning to project-base under this part and the number of units that such budget authority will support.

If HUD is going to collect the following information from agencies, in an effort to minimize administrative burdens on PHAs we recommend including a request for this information in the PHA Plan so that PHAs that are utilizing the PBV section of the PHA Plan can answer these questions at that time.

Thank you for your consideration of our recommendations. Please do not hesitate to contact us if you require additional information.

Sincerely,



Jonathan B. Zimmerman
Senior Policy Advisor – Housing Assistance Programs

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR SCHUMER
FROM WILL FISCHER**

Q.1. Allowing tenant protection vouchers to be project-based in order to preserve affordable housing.

Currently, HUD allows some tenant protection vouchers that are issued to be project-based in order to help preserve affordable housing and reduce tenant displacement. More specifically, HUD allows tenant protection vouchers (TPVs) to be project-based in the “orphan properties,” that have no option for rental assistance contract renewals and no option for long-term affordability. By allowing owners to project-base these vouchers, they can then leverage the rental assistance contracts to recapitalize the property. Further, it helps protect households that are currently residing in the property from being displaced and forced to relocate.

With the appropriate safeguards in place, including tenant consultation and notification, do you believe that making all tenant protection vouchers eligible for project-basing is an important tool that will help preserve affordable housing? What are some other options to preserve affordable housing for low-income households that are facing possible displacement and rent increases due to affordability restrictions expiring or owners opting out of HUD’s programs?

A.1. We agree that project-based vouchers are an important preservation tool to retain affordable units in a property for the long term. However, project-basing usually is not necessary to prevent displacement of current tenants. The large majority of tenant protection vouchers issued when privately owned properties opt out of Federal assistance are “enhanced vouchers” provided under the authority of section 8(t) of the U.S. Housing Act, which leaves the choice of whether to remain in the property to the tenant. Tenants with enhanced vouchers could be protected from displacement through enforcement of requirements in existing law for owners to accept the vouchers.

Because of the language of section 8(t), HUD has determined it does not have the authority to allow enhanced vouchers to be project based, prospectively or retroactively. Congress would have to enact new authority to make such project-basing possible. Section 202(b) of the April 13, 2012, House draft of the Affordable Housing and Self-Sufficiency Improvement Act (AHSSIA) would provide this authority.

Congress should enact this provision, but it should modestly alter the language to cover all situations eligible for enhanced vouchers (including prepayments in addition to cessation of rental assistance), require tenant notification and consultation, and require that HUD provide advance notice of the standards it will apply for waivers of the requirement in 8(o)(13)(C) that project-basing be consistent with the PHA plan and the goal of deconcentrating poverty.

Congress also should drop the language in Section 202(b) authorizing HUD to waive the limits in 8(o)(13)(B) and (D) on the percentage of units in a project that can have PBV assistance and the share of an agency’s voucher funds that can be project based. As is discussed further in the answer to the next question, HUD should instead exempt all PBVs used to preserve federally assisted

housing from these limits but establish a new cap of 50 percent on the share of an agency's voucher program that can be project based for any reason.

In addition, enactment of the improvements to the PBV program included in Section 106 of AHSSIA would make project-based vouchers more attractive to owners and effective as a preservation tool. For example, these changes would increase the maximum length of project-based voucher contracts from 15 years to 20 years, require public housing agencies to prioritize making payments due under PBV contracts in the event of insufficient appropriations, facilitate the maintenance of site-based waiting lists that comply with fair housing requirements, set the limit on the share of a PHA's voucher program that can be project based at 20 percent of the PHA's authorized vouchers rather than 20 percent of its funding (making the limit more predictable and expanding project-basing capacity at most agencies), and allow PHAs to project base an additional 5 percent of vouchers for specified purposes.

Regarding other options, we have two suggestions:

1. Congress could authorize HUD to provide tenant protection vouchers for tenants residing in HUD-assisted properties with maturing mortgages or expiring use restrictions if sufficient appropriated funds are available for this purpose after addressing the needs of tenants in other properties, public or private, already eligible for tenant protection vouchers. (Prioritizing already authorized uses of tenant protection vouchers is important, because if funds are insufficient families that have been receiving rental assistance under other programs may be displaced and unable to afford other housing.)
2. Congress could direct HUD to create a preservation exchange program that will identify properties that are at-risk of opt-out and facilitate purchase of these properties by preservation-oriented entities that will maintain affordability.

Q.2. Exempting public housing redevelopment from counting against a PHA's project-based voucher funding limitation.

The PBV program limits a PHA from project-basing more than 20 percent of its voucher funding. Many PHAs around the country have been using the PBV program as a tool to redevelop and rehabilitate its public housing stock. Recently, HUD has embraced this principle by allowing a PHA to convert its public housing assistance to a 15 year PBV contract through the Rental Assistance Demonstration program. Unfortunately, for many PHAs unable to utilize the RAD program, the 20 percent limitation may still be a barrier for them to redevelop their own public housing stock. A simple solution would be to exempt public housing revitalization that a PHA undertakes from the 20 percent voucher-funding cap. This would then allow a PHA to continue to reposition its public housing stock and also continue to use the program in a manner that best serves the low-income households in the surrounding community.

Would you support a change to the project-based voucher program that would provide an exception to the 20 percent voucher funds limitation for PHAs that use the PBVs to redevelop its own

public housing stock? Are there are other limitations or changes you would make to the RAD program that would make it easier for a PHA to redevelop public housing in a manner that protects the Federal investment and provides safe, decent housing for low-income households?

A.2. PBVs are a promising tool for preserving public housing, and it would be beneficial to ease—but not eliminate—the limitation on the share of voucher funds that can be project based if the added project-based vouchers (PBVs) go toward preservation of public and other federally assisted housing. Congress could achieve this by exempting PBVs used to preserve federally assisted housing from the 20 percent cap in 8(o)(13)(B), but providing that PHAs may not under any circumstances project base more than 50 percent of their voucher funds (or authorized vouchers, if the change in Section 106 of AHSSIA is enacted).

This 50 percent limit is very important, for two reasons:

- First, allowing the majority of vouchers or voucher funds at an agency to be project based would undermine the PBV program's resident choice policy. PBV residents have the right after 1 year to move with the next available tenant-based voucher. This is a vital feature of the PBV program, since it enables the owner to leverage assistance for underwriting purposes and residents to benefit from the stability of project-based housing, but also permits residents to move if needed (for example, to pursue a job opportunity) without giving up rental assistance.

For the resident choice policy to work well, however, the pool of tenant-based vouchers must be large compared to the number of PBVs. If too many of an agency's vouchers are project based, PBV tenants who wish to move will experience long waits and few vouchers will be available to unassisted families on tenant-based assistance waiting lists.

- Second, if agencies project base a high percentage of their vouchers, lenders may be less willing to finance rehabilitation with loans that rely on PBVs for repayment. It is more challenging to foster lender confidence in project-based vouchers than in Section 8 project-based rental assistance, which has a longer track record and is backed by direct multiyear contracts between the Federal Government and owners. Moreover, Congress has underfunded the voucher program a number of times in recent years, with the result that HUD has been compelled to fund agencies at levels somewhat below the amounts for which they were eligible. The deepest shortfall to date, in 2006, reduced agencies' funding by 5.4 percent. Funding uncertainty and the potential for shortfalls may well increase in the next decade, given the constraints already enacted by the Budget Control Act and deficit-reduction pressures.

Project-based vouchers have been largely insulated from voucher funding shortfalls because they make up a small portion of agencies' voucher programs. PHAs can cover shortfalls through temporary and usually modest cutbacks to their tenant-based vouchers (for example, by shelving vouchers rather than re-issuing them when families leave the program) without affect-

ing project-based owners or their lenders. If an agency were faced with a shortfall and most of its vouchers were project based, however, the agency could avoid PBV cuts only by making such drastic cuts to their smaller tenant-based program that current voucher holders could be forced to leave their homes. And if the shortfall were deep enough and the share of PBVs high enough, it could become impossible for agencies to avoid PBV cuts. Even the prospect of this occurring could make lenders less willing to make loans that are backed by PBV subsidies.

The Moving-to-Work stakeholder agreement incorporated in Section 401 of the April 2012 AHSSIA draft recognized the importance of maintaining some limits on project-basing. That provision would permit MTW agencies to project base more than 20 percent of their voucher programs, but only up to 50 percent.

Another provision of the PBV statute also impedes use of PBVs for public housing: the cap in section 8(o)(13)(D) of 25 percent on the share of units in a development that can have project-based vouchers (excluding units made available specifically for the elderly, people with disabilities, or families receiving supportive services). This cap is beneficial and important when PBVs are used in newly assisted developments, since it encourages mixed-income housing (which can place greater market discipline on the development's management). But it makes little sense in developments where more than 25 percent of the units already receive Federal housing assistance. It would be helpful if Congress specified that the cap does not apply when project-based vouchers are used to preserve federally assisted housing.

While these changes would be worth making, on their own they likely would expand the use of project-based vouchers to preserve public housing only moderately. HUD has increasingly implemented restrictions on public housing demolition and disposition to further preservation goals. These restrictions are important, but one of their effects is to impede voucher conversions solely to finance redevelopment. Moreover, when conversions are permitted the funding for new vouchers would need to come from the limited appropriation for tenant protection vouchers, which has been cut sharply in recent years and is close to or below the level needed to meet the existing annual need for new tenant protection vouchers.

RAD, which Congress authorized in 2012 appropriations legislation, permits conversion of up to 60,000 public housing units to project-based vouchers or project-based rental assistance, but prohibits HUD from setting these units' Section 8 subsidies above the amount they would have received through the public housing operating and capital funds. This funding restriction, as well as the unit cap, will limit the share of the public housing stock where RAD is feasible. Large-scale use of project-based vouchers or project-based rental assistance to preserve public housing will likely require a decision by Congress to approve additional conversions and appropriate the modest increase in voucher or other section 8 funds needed to set subsidies at adequate levels.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR SCHUMER
FROM LINDA COUCH**

Q.1. Allowing tenant protection vouchers to be project-based in order to preserve affordable housing.

Currently, HUD allows some tenant protection vouchers that are issued to be project-based in order to help preserve affordable housing and reduce tenant displacement. More specifically, HUD allows tenant protection vouchers (TPVs) to be project-based in the “orphan properties,” that have no option for rental assistance contract renewals and no option for long-term affordability. By allowing owners to project-base these vouchers, they can then leverage the rental assistance contracts to recapitalize the property. Further, it helps protect households that are currently residing in the property from being displaced and forced to relocate.

With the appropriate safeguards in place, including tenant consultation and notification, do you believe that making all tenant protection vouchers eligible for project-basing is an important tool that will help preserve affordable housing? What are some other options to preserve affordable housing for low-income households that are facing possible displacement and rent increases due to affordability restrictions expiring or owners opting out of HUD’s programs?

A.1. The National Low Income Housing Coalition (NLIHC) thinks that project basing vouchers, as either tenant protection or enhanced vouchers, can be an important preservation tool that safeguards tenants from increased housing costs and helps retain affordable rental housing.

In most cases when an owner opts out of a Federal housing assistance program, residents are issued tenant protection vouchers that enable them to stay in their homes, or use the vouchers to move if they choose to. However, there is a small subset of HUD-assisted properties with maturing mortgages or expiring use restrictions that are not eligible for tenant protection assistance once the affordability restriction ends. The FY12 Appropriations Act provided up to \$10 million to provide tenant protection or enhanced vouchers for residents of these properties located in low-vacancy areas (the “Durbin-Brown” provisions). The FY12 Appropriations Act also allowed HUD to project base that assistance, which would preserve a property’s affordability while enabling tenant mobility. Beyond FY12, Congress should continue and augment appropriations for tenant protection vouchers for all tenants Durbin-Brown intended to assist (HUD is making only \$6 million available); plus, the provision should be modified to remove the limitation to low-vacancy areas.

The “Merkley-Brown” provisions of the FY12 Appropriations Act should also be expanded beyond FY13 in order to allow ongoing project basing of vouchers, in lieu of tenant-based vouchers, when Rent Supplement (Rent Supp), Section 236 Rental Assistance Payment (RAP), or Section 8 Moderate Rehab contracts expire.

In addition, Congress should amend Section 8(o)(13) of the Housing Act, explicitly stating that all tenant protection assistance may be in the form of project based vouchers, eliminating the 25 percent cap on the number of units that may be project based at federally assisted housing. The Merkley-Brown provisions authorized HUD

to waive most features of Section 8(o)(13), but in the Rental Assistance Demonstration HUD merely raised the cap to 50 percent. Eliminating the cap and increasing the maximum contract length of a project-based voucher contract from 15 to 20 years would make project basing a more attractive and effective tool for preservation.

Finally, Congress should establish a national preservation inventory that is publicly available and regularly maintained, requiring HUD to provide each federally assisted property with a unique numerical identifier. This will help residents, advocates, and preservation-oriented developers identify properties that are at risk of leaving the affordable housing stock so that preservation-oriented developers can take the necessary steps to preserve properties as affordable housing for low income people.

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD
LETTERS SUBMITTED BY DIANNE HOVDESTAD



March 20, 2012.

Assistant Secretary Sandra Henriquez
U.S. Department of Housing & Urban Development
Office of Public and Indian Housing
451 7th Street S.W.
Washington, DC 20410

Dear Assistant Secretary Henriquez,

The Mountain Plains Regional Council of the National Association of Housing and Redevelopment Officials (Mountain Plains NAHRO) is a membership driven organization that exists to provide professional development, advocacy for public housing and community development agencies to enhance the affordable housing industry and promote viable communities in our region. Mountain Plains NAHRO has over 200 member agencies and represents housing authorities and community development agencies in Colorado, Montana, North Dakota, South Dakota, Utah and Montana. Nationwide, NAHRO consists of 19,900 individual members and associates who provide housing for over 7.9 million low-income people.

The purpose of this letter is to convey the serious impacts the federal budget cuts have had in our region's communities and to urge you to push for regulatory relief. Our Mountain Plains NAHRO members operate successful housing and self-sufficiency programs that serve low-income working families, seniors, Veterans, and people with disabilities.

We are seeking your assistance in facilitating the implementation of the regulatory and administrative relief changes recommended by NAHRO and other industry leaders. For several years, NAHRO leaders have worked in good faith with HUD officials on sound and responsible regulatory relief, however to date, HUD has failed to make significant changes.

Public Housing Authority leaders are forced to make difficult decisions in order to manage these devastating program funding cuts. Since the administrative program

functions require human resources, staff reductions are the only cuts that can be made. Decreased staffing levels equate to decreased ability to administer program requirements, creating a vicious cycle. Through staff lay-offs or re-hiring freezes, Housing Choice Voucher programs are being operated at bare bones levels. Because the Housing Assistance Payments for families' rent has been fully funded in the Federal budget, the number of families served has remained constant, but Public Housing Authorities must administer the same number of vouchers with insufficient staffing levels. To date, neither Congress nor HUD has implemented any significant regulatory or statutory changes to the Housing Choice Voucher program which would materially impact the compliance and administrative burden of the program. Without regulatory relief this year, Public Housing Authorities face the dire prospect of inadequate service levels to families and/or noncompliance with over-complicated regulation.

Last month, HUD issued Notice PIH 2012-15 which suggested administrative changes Public Housing Authorities could make to cut administrative costs of program administration. Unfortunately, there were no regulatory changes in this notice and the suggestions were things that many housing authorities already do. Much more needs to be done in order to manage through this challenging funding period. Mountain Plains NAHRO is requesting that HUD act as a partner and ally in immediately implementing meaningful relief to ensure the future viability of these longstanding and proven programs. Only through collaboration and advocacy can we ensure that the people we serve are not the ones who bear the brunt of the underfunding of these vital programs. We urge you and HUD Secretary Donovan to implement the regulatory and administrative relief efforts recommended by NAHRO and other industry leaders, prioritizing revenue generating and cost saving reforms such as those highlighted here:

- I. Simplify income verification by enacting provisions relating to improved household income and asset determinations by enabling Public Housing Authorities to use participants' actual past income from the previous twelve months or current income as anticipated for the following twelve-months. This specific item from the original "rent refinement" interim rule is something that HUD can do now through regulation without having to introduce legislative language or wait to have legislative language enacted into law.

Other income reforms that should be prioritized include:

- a. Allow households to self-certify assets of less than \$5,000
- b. Allow Public Housing Authorities to apply applicable annual adjustment factors to fixed benefits or income verified on HUD's EIV system
- c. Eliminate requirement to verify "excluded income" items
- d. Allow Public Housing Authorities to use pay stubs to verify income as a first ranked item

- e. Allow Public Housing Authorities to use re-certifications from other means-tested programs
- II. Allow Public Housing Authorities to use their unobligated Net Restricted Asset (NRA) funds from prior years to increase ongoing Administrative Fee pro-rations which would help the HCV program sustain the number of families served last year and facilitate the Department in accomplishing its FT 2010-15 Strategic Plan goals.
- III. Where possible, suspend or waive all or portions of the Section Eight Management Assessment Program (SEMAP) which assesses Public Housing Authorities' management of this program. Taking unilateral action to suspend compliance and reporting burdens until full funding of Administrative Fees is restored will allow Public Housing Authorities to focus their limited resources toward service delivery. NAHRO raised numerous, well documented, concerns over the scoring and implementation of SEMAP Indicators. Mountain Plains NAHRO believes that under current conditions this would be a good time to allow the most recent scores to be carried forward until all issues are addressed.

In addition to the critical Housing Choice Voucher program relief efforts discussed above, there are additional measures which HUD can take immediately that would assist Public Housing Authorities to more effectively manage their Public Housing and Community Development Block Grant programs.

- IV. Asset Management regulations came out of a "Negotiated Rulemaking" conducted in 2004. Asset Management costs/fees were benchmarked to a model of FHA-insured properties. Mountain Plains NAHRO believes that these fees should be re-evaluated as part of the Federal Advisory Committee process required by the regulations. NAHRO sent a letter to HUD addressing concerns about the Operating Fund rule and its Asset Management provisions on November 11, 2006.
- V. We strongly believe that the Asset Management requirements of the Public Housing Operating Fund Rule are extremely burdensome for smaller agencies and do not provide any tangible benefits. Mountain Plains NAHRO members urge HUD to raise the Asset Management threshold from 250 units to 400 units immediately.
- VI. Extend the CDBG timing requirement for updates of the required Analysis of Impediments to Fair Housing Choice (AI) or allow Entitlement Communities to determine when such updates or revisions are needed based on local conditions.

- VII. Revise the HUD requirement regarding CDBG on-site sub-recipient monitoring so that is based on a minimum dollar threshold.
- VIII. Allow for formation of HOME Consortia without requiring each jurisdiction to alter its Program Year to conform to the principal organization's Program Year where an organization already has its own established Program Year.
- IX. Eliminate the excessive financial sanctions that result from CDBG funds unspent in excess of a ratio of 1.5 of its annual entitlement and create a more reasonable way to ensure communities are effectively utilizing appropriated funding.

Mountain Plains NAHRO respectfully urges you to support the deregulation measures as outlined in this letter and asks that your office convene a meeting with appropriate HUD senior officials and NAHRO members to reach consensus on the requested program reforms and develop an expedited timeline for implementation by the third quarter of 2012. Mountain Plains NAHRO along with our peers from the five other states that make up Mountain Plains NAHRO will be meeting with our Congressional delegates as a part of the NAHRO Legislative Conference to review and further explain this information. We look forward to meeting with you and other key HUD leaders at that time to discuss how we can best move forward together on these initiatives.

Sincerely,

Don May, President
Mountain Plains Regional Council - NAHRO

Craig Maraschky, President
Colorado Chapter - NAHRO



John Stengle, President
South Dakota Chapter - NAHRO

SueAnn Grogan, President
Montana Chapter - NAHRO



Lynell Smith, President
Utah Chapter - NAHRO



Terry Hanson, President
North Dakota Chapter - NAHRO

Greg Hancock, President
Wyoming Chapter - NAHRO





U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000

ASSISTANT SECRETARY FOR
PUBLIC AND INDIAN HOUSING

JUN 12 2012

Mr. Don May
President
Mountain Plains-Regional Council
National Association of Housing and Redevelopment Officials
7190 Colorado Boulevard
Commerce City, CO 80022

Dear Mr. May:

Thank you for your letter proposing that HUD and NAHRO partner together to implement regulatory relief. The Office of Public and Indian Housing (PIH) is interested in reforms that streamline requirements, reduce administrative burdens, create better business practices and also meet PIH oversight responsibilities.

PIH has taken a leadership role and worked with industry groups and others to craft key provisions of the discussion draft of the Affordable Housing and Self-Sufficiency Improvement Act of 2012 (AHSSIA), including significantly expanding the Moving to Work program.

In addition, our FY 2013 budget proposes vital streamlining efforts such as: biennial inspections of Housing Choice Voucher (HCV) units; authority to create consortia of PHAs to operate public housing; flexibility to voluntarily consolidate funding for resident supportive service activities under operating, capital and Section 8 administrative fee funding sources; and authority to sponsor-base assistance of up to five percent of HCV funding for homeless individuals and families in order to provide housing and services. To both simplify the program and reduce the administrative burden on PHAs that own and manage these properties, the budget proposes to combine the separate operating and capital funds into a single public housing subsidy stream. As a first step toward this consolidation, the budget provides all PHAs with full flexibility to use their operating and capital funds for any eligible capital or operating expense.

Also, HUD's budget proposes a Jobs-Plus Initiative, an evidence-based strategy for increasing employment opportunities and earnings of public housing residents through a three-tiered program of employment services, rent-based work incentives, and community support for work.

At the same time, to continue implementation of the Rental Assistance Demonstration, the Department will use funding requested in the budget for existing programs to ensure that thousands of units funded through the public housing and so-called "orphan programs" can leverage debt to access private capital and preserve affordable housing.

Several of the recommendations in your letter are part of AHSSIA including: simplifying income verification by enacting provisions relating to improved household income and asset determinations by enabling PHAs to use participants' actual past income from the previous 12

months or current income as anticipated for the following 12 months; allowing households to self-certify assets of less than \$5,000; and allowing PHAs to apply applicable annual adjustment factors to fixed benefits or income verified on HUD's Enterprise Income Verification (EIV) system. As you know, if AHSSIA is not enacted, these changes would require HUD rulemaking before they could take effect.

Several of the suggestions from your letter are under development including: a notice to eliminate a requirement to verify "excluded income" items and; an update to Notice, PIH 2010-19, *Administrative Guidance for Effective and Mandated Use of the EIV System*. It may be fruitful to establish a working group to further discuss on-going EIV issues.

With respect to re-evaluating asset management fees as part of the Federal Advisory Committee process, at this time PIH is focusing on the proposal to provide all PHAs with full flexibility to use capital and operating funds for any eligible capital or operating expense. This will complete the transition to asset management, simplify the program, and reduce administrative burden. As you know, PHAs, industry representatives, and advocacy groups are participating in feedback sessions about this proposal.

With respect to the suggestion to suspend or waive all or portions of the Section Eight Management Assessment Program (SEMAP) which assesses Public Housing Authorities' management of the Housing Choice Voucher program, I do not support such an approach because many SEMAP indicators measure statutory requirements, which the Department has a responsibility to ensure are being met. However, PIH will monitor SEMAP scores and if there are significant drops in performance ratings as a result of the decrease in administrative fee funding levels, PIH will explore potential policy or administrative changes that could be implemented to address significant decreases in PHA performance.

As you may know, HUD is working on changes to the SEMAP regulations, as well as implementation of the Next Generation Management System, a tool that will enhance financial, portfolio, and applicant/tenant data management. Through these initiatives PIH's intent is to shift the assessment of PHA performance from self-certification to independent verification, as well as to rely on data that the Department already has, thereby reducing the administrative burden associated with the SEMAP certification process. The Department is also undertaking an administrative fee study to fully evaluate the costs of running an effective voucher program. The results of the study will be used to justify a revision to the current administrative fee funding formula and future budget requests. The engagement of this study represents the Department's commitment to ensure PHAs receive adequate compensation for their services.

Some of the recommendations from your letter require legislation that PIH is not pursuing at this time including: allowing Public Housing Authorities to use re-certifications from other means tested programs; allowing Public Housing Authorities to use their unobligated Net Restricted Asset (NRA) funds from prior years to increase ongoing Administrative Fee proportions; and raising the Asset Management threshold from 250 units to 400 units.

Please contact, Deb Gross, Deputy Assistant Secretary for Policy, Programs and Legislative Initiatives, at 202-402-4642, if you have further questions.

Sincerely,



Sandra B. Henriquez
Assistant Secretary

cc: Craig Maraschky
SueAnn Grogan
Terry Hanson
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NAHRD: State-by-State Projected Impact on the Number Voucher Households That Would Be Leased if PHAs Receive 83 Percent Administrative Fee Pro-Rations (October 4, 2011)

State / Territory	Average Number of Leased Voucher Households as of March 31, 2011	Projected to Be Leased, if PHAs Receive 83 Percent Administrative Fee Pro-rations	Fewer Number of Voucher Households Leased Over a Twelve Month Period, as a Result of 83 Percent Administrative Fee Pro-rations	Percent Reduction in Voucher-Assisted Households Over a Twelve Month Period
Alaska	4,244	4,049	194	5%
Alabama	28,949	27,858	1,092	4%
Arkansas	21,173	20,358	816	4%
Arizona	20,420	19,848	572	3%
California	288,070	275,159	12,911	4%
Colorado	29,004	28,217	787	3%
Connecticut	33,861	32,760	1,101	3%
District of Columbia	10,376	9,665	711	7%
Delaware	4,277	4,189	87	2%
Florida	87,165	84,474	2,691	3%
Georgia	52,459	49,785	2,674	5%
Guam	2,392	2,369	23	1%
Hawaii	8,562	8,329	233	3%
Iowa	20,984	20,174	810	4%
Idaho	6,698	6,438	260	4%
Illinois	77,341	72,882	4,459	6%
Indiana	34,664	33,607	1,057	3%
Kansas	11,468	11,128	340	3%
Kentucky	31,892	30,833	1,059	3%
Louisiana	46,232	43,960	2,273	5%
Massachusetts	72,331	68,768	3,564	5%
Maryland	40,972	39,278	1,695	4%
Maine	11,533	11,090	442	4%
Michigan	52,725	50,185	2,540	5%
Minnesota	30,059	28,877	1,182	4%
Missouri	38,628	37,646	982	3%
Mississippi	22,139	21,605	535	2%
Montana	5,550	5,289	261	5%
North Carolina	52,264	50,476	1,788	3%
North Dakota	6,909	6,649	260	4%
Nebraska	9,957	9,558	399	4%
New Hampshire	9,195	8,810	385	4%
New Jersey	57,164	54,282	2,882	5%
New Mexico	11,938	11,477	462	4%
Nevada	13,550	13,351	199	1%
New York	210,799	196,979	13,820	7%

NAHRO: State-by-State Projected Impact on the Number Voucher Households That Would Be Leased if PHAs Receive 83 Percent Administrative Fee Pro-Rations (October 4, 2011)

State / Territory	Average Number of Leased Voucher Households as of March 31, 2011	Projected to Be Leased, if PHAs Receive 83 Percent Administrative Fee Pro-rations	Fewer Number of Voucher Households Leased Over a Twelve Month Period, as a Result of 83 Percent Administrative Fee Pro-rations	Percent Reduction in Voucher-Assisted Households Over a Twelve Month Period
Ohio	88,789	84,496	4,293	5%
Oklahoma	23,938	22,619	1,320	6%
Oregon	32,493	31,917	576	2%
Pennsylvania	72,107	69,275	2,832	4%
Rhode Island	8,607	8,287	320	4%
Puerto Rico	27,837	27,006	831	3%
South Carolina	24,313	23,576	737	3%
South Dakota	5,222	5,056	166	3%
Tennessee	32,305	31,280	1,025	3%
Marianas Islands	342	326	16	5%
Texas	141,941	136,141	5,800	4%
Utah	10,490	10,233	257	2%
Virginia	43,370	42,367	1,003	2%
Virgin Islands	1,219	1,207	12	1%
Vermont	5,912	5,676	236	4%
Washington	47,081	45,849	1,232	3%
Wisconsin	26,653	25,904	749	3%
West Virginia	15,650	15,277	373	2%
Wyoming	579	551	28	5%
Total	2,074,795	1,987,443	87,352	4%

NAHRO's projected number of voucher-assisted households is based on our survey of 309 PHAs of all sizes and housing markets in 46 states from June 1, 2011 to the July 11, 2011, and applied to all PHAs in the country that administer Section 8 voucher programs. Variances in the percentages of fewer households served state-by-state reflect different rates in the number of households that could be served at 83 percent ongoing administrative fee pro-rations across nine different PHA sizes. The projections above are conservative due to the fact that at the time PHAs responded to NAHRO's survey they received 93 percent administrative fee pro-rations before Congress cut administrative fees to 83 percent pro-rations for CY 2011. As a result, PHAs' financial position to absorb 83 percent ongoing administrative fee pro-rations is worse than they could have known at the time of the survey, and the number of fewer households they would be able to serve over a twelve month period would likely be worse as well. The figures above are also conservative due to the fact that PHAs responding to the survey were asked to assume that there would be 100 percent Housing Assistance Payment pro-rations rather than a maximum of 98 percent HAP pro-rations resulting from the Senate Appropriations Committee mark-up on September 21, 2011. Therefore, PHAs would be able to support fewer families with fewer HAP funds and earn less administrative fee revenue leading to fewer staff, higher caseloads, and less voucher program compliance and services than PHAs could have known about at the time of the survey.

NAHRO VOUCHER ADMINISTRATIVE FEE SURVEY RESULTS



NAHRO Voucher Administrative Fee Survey Results (July 14, 2011)

From June 1, 2011 to the present, NAHRO conducted a survey on the impact of 83 percent pro-rations in PHAs' voucher program ongoing administrative fees for 2011. NAHRO's survey results and analysis are intended to help lawmakers appreciate the impacts resulting from reduced voucher program ongoing administrative fee funding levels in 2011. The survey targeted agencies that administer Housing Choice Vouchers (HCVs), HUD-Veterans Affairs Supportive Housing (HUD-VASH), Family Unification Program (FUP), Mainstream and the Non-Elderly Disabled Program (NED), and Disaster Housing Assistance Program (DHAP). A total of 309 public housing agencies (PHAs) in 46 states responded, including city, county, multi-county and state-wide PHAs, and agencies which operate in rural, suburban and urban areas. NAHRO's survey found that as a direct result of 83 percent pro-rations in PHAs' ongoing administrative fees for 2011:

- **Lowest Admin Fee Pro-Ration in 36-Year History:** PHAs earn ongoing administrative fees for each voucher-assisted family under lease. From FY 2004 - FY 2010 PHAs have received average annual pro-rations of 90 percent as compared with the benchmark in effect since 1998 under the "Quality Housing and Work Responsibility Act of 1998." Under the final FY 2011 Continuing Resolution (P.L. 111-383), PHAs' ongoing administrative fees were cut by \$128 million or 8.38 percent compared with FY 2010. HUD estimates that the ongoing administrative fee reduction will result in an 83 percent pro-ration in calendar 2011. As a percentage of program funds for voucher participants, the HCV program's ongoing and special administrative fee funding level in FY 2011 is only 8.38 percent. This is the lowest ongoing administrative fee pro-ration percentage in the program's 36-year history.
- **Widest Gap in Fee Pro-rations and National Lease-up Rates in History:** The percentage gap between ongoing administrative fee pro-rations (83 percent) and the national voucher lease-up rate (92 percent) is the widest in the history of the voucher program. As noted above, NAHRO's March 2011 survey found that 87,352 fewer families will be served in a 12-month period of time. This is due to PHA staff layoffs, the inability to fill staff positions that are vacated, staff furloughs and workload increases. In fact, NAHRO estimates that national voucher leasing rates could drop by 4 percent -- from 92 percent to approximately 88 percent -- through July 30, 2012.

This would be the largest drop in voucher-assisted families in the shortest period of time, in the program's history. This would also return us to the sad state of CY 1999, when the higher of budget utilization and voucher lease-up rates were only 88 percent.

- **Reductions in Staff and Increased Caseloads Burdens Will Impact Program Compliance and Performance:** NAHRO's March 2011 survey shows that, even with increased HAP funding provided for in the final FY 2011 CR, an 83 percent pro-ration in administrative fee funding will likely result in:
 - **Insufficient Staff to Serve the Same Number of Families:** Twenty-seven percent of PHA respondents indicated they have insufficient staff and administrative resources to serve at least the same number of HCV households leased in CY 2010;

- **Staff Layoffs / Vacated Positions Which Remain Unfilled:** Fifty-six percent of PHA respondents indicated they have laid off staff or not filled vacated positions;
- **Staff Furloughs / Reduced Work Hours:** Thirty-five percent of PHA respondents indicated they have furloughed staff and/or reduced their work hours;
- **Staff Workload/Caseload Increases:** Seventy-four percent of PHA respondents indicated they have increased staff workloads;
- **High Performers to Fall Into Standard Performer Status:** Of the 87 percent of PHA respondents that are “high performers” under HUD’s Section Eight Management Assessment Program (SEMAP), **41 percent** of them state that they will fall into “standard performer” SEMAP status. **63 percent** of all PHA respondents state that they are unable to maintain at least the same level of program performance and services they provided to voucher-assisted households and property owners;
- **Severe, Serious and Moderate PHA Hardships to Comply with Voucher Regulations:** Seven percent of respondents stated that they are experiencing a *severe* hardship (requiring budget cuts and a commensurate reduction of staff resources), resulting in only being able to carry out 50-74 percent of HUD-required responsibilities. A total of 52 percent of respondents are experiencing *serious* hardships, requiring budget cuts that would significantly reduce resources and leave affected PHAs able to carry out only 75-89 percent of required responsibilities. Thirty percent of PHAs stated that they are experiencing a *moderate* hardship to carry out only 90-94 percent of HUD-required responsibilities. Eleven percent of PHAs stated that they are experiencing a *mild* hardship to carry out only 95-99 percent of HUD-required responsibilities;

The responsibilities to which PHAs responded in the survey include the following:

[S]election from the waiting list, rent reasonableness, determination of adjusted income, utility allowance schedule, Housing Quality Standards (HQS) quality control inspections, HQS enforcement, expanding housing opportunities, fair market rent (FMR) limits and payment standards, annual reexaminations, correct tenant rent calculations, pre-contract HQS inspections, annual HQS inspections, lease-ups, family self-sufficiency (FSS) enrollment and escrow accounts, and deconcentration; continuation of applicant participant criminal background screening, monitoring income targeting provisions, briefing families on how to use the program and how to find housing, establishing and updating the rent reasonableness survey, assisting landlord-resident disputes, enforcing the HAP contract and conducting grievance hearings, tracking success rate, utilization rate and forecasting voucher issuance, maintaining and updating the administrative plan, annual program reporting and monthly tenant reporting to HUD, homeownership program, program compliance, fraud investigations, rent reasonableness data base updates, utility allowance schedule research, employee training, landlord outreach, special assistance to families (of any nature), portability processing, Limited English Proficiency (LEP), reasonable accommodations processing, special assistance to families to promote housing mobility including housing search assistance such as help in identifying

available housing in low-poverty areas or providing transportation, security deposit assistance and family or credit counseling lower number of staff per household and property owner, and coordination with and development of partnerships with local service providers and public agencies.

- **PHA Responsibilities Most Compromised:** In order of magnitude, PHAs' responsibilities that are most compromised include: 1) leasing up voucher households; 2) quality control of Housing Quality Standard inspections; 3) expanding housing opportunities for voucher holders; 4) annual reexaminations; and 5) rent reasonableness. More specifically, PHAs' responsibilities that are most adversely affected (in order of magnitude) include: program oversight and quality control, waiting list eligibility determinations and briefings, complaint inspections, annual re-examinations, and initial inspections/rent reasonableness/lease-ups;
- **Efforts to Encourage Family Self-Sufficiency Would Be Restrained:** Thirty-six percent of respondents said that they would be unable to continue to fund the portion of their Family Self-Sufficiency (FSS) coordinator(s)' salary and/or benefits. In most instances, these funds are not completely covered under HUD's FSS Coordinator Grant.
- **Fewer PHA Staff Means Fewer People Can Be Served:** Prior to FY 2011 spending reductions, including cuts to administrative fees, PHAs administering the HCV program experienced an average annual pro-ration of 90 percent from CY 2004 – CY 2010. A NAHRO 2009 administrative fee survey found that 32 percent of PHAs could have served 8 percent more families with available HAP and Net Restricted HAP Asset (NRA) dollars, but were unable to do so because of insufficient administrative fees.

Simply put, fewer PHA staff means fewer people can be served. Having provided responsible levels of HAP and NRA in FY 2011, the committee will likely find that those same funds will not benefit as many eligible low-income households as they otherwise could have. Further, these funds cannot currently be utilized to address problems caused by reduced administrative fee dollars and/or provide 100 percent pro-rations to PHAs' ongoing administrative fees so that they could provide the staff and services necessary to make full use of appropriated HAP and NRA funds. This is a correctable statutory flaw that we believe can -- and should -- be addressed in FY 2012!

- **Voucher Leasing in 2012:** NAHRO's administrative fee survey found a projected reduction of four percent of families nationwide from July 1, 2011 – June 30, 2012. PHA respondents were asked to assume that, for FY 2012, their agencies would have adequate Housing Assistance Payment (HAP) funding and Net Restricted HAP Assets (NRA) to serve the same number of households they project leasing in CY 2011. PHA respondents stated that as a direct result of the following ongoing administrative fees pro-rations for FY 2012, they project leasing varying percentages of the families they served in 2011:
 - 100 Percent Pro-ration = 2.7 percent increase in the number of families served;
 - 95 Percent Pro-ration = 1.8 percent increase in the number of families served;
 - 90 Percent Pro-ration = -1.0 percent decrease in the number of families served;
 - 85 Percent Pro-ration = -2.0 percent decrease in the number of families served;
 - 80 Percent Pro-ration = -4.0 percent decrease in the number of families served;

- o 75 Percent Pro-ration = -7.0 percent decrease in the number of families served;
- o 70 Percent Pro-ration = -8.8 percent decrease in the number of families served.

Composition of 309 PHA Respondents to NAHRO's HCV Admin. Fee Survey (as of 7/11/11)

PHA Unit Size Agency Units (HCV, HUD-VASH, Mainstream / Non-Elderly Disabled Programs, Family Unification Program and DHAP Voucher Programs)	PHA Size As a Percentage of All PHA Survey Respondents
1-99 units	33%
100-299 units	18%
300-499 units	11%
500-999 units	12%
1,000-2,999 units	17%
3,000-4,999 units	3%
5,000-9,999 units	4%
10,000-29,999 units	2%
30,000 and greater units	0%

PHAs' Housing Market(s)	Percentage
Metropolitan	27%
Suburban	13%
Rural	30%
Metropolitan and suburban	13%
Metropolitan, suburban and rural	16%

PHAs' Geographic Service Area	Percentage
city	44%
county	40%
multi-county	14%
state	2%

PHAs in the following states are represented in NAHRO's survey including: AL, AR, AZ, CA, CO, CT, FL, GA, IA, ID, IL, IN, KS, KY, LA, MA, MD, ME, MI, MN, MO, MS, MT, NC, ND, NE, NH, NJ, NV, NY, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VA, VT, WA, WI, W1 and WV.



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**STATEMENT SUBMITTED BY DEBORAH DE SANTIS, PRESIDENT AND
CHIEF EXECUTIVE OFFICER, CORPORATION FOR SUPPORTIVE
HOUSING**

Statement of

**Deborah De Santis
President and Chief Executive Officer
Corporation for Supportive Housing**

*Committee on Banking, Housing and Urban Affairs
Subcommittee on Housing, Transportation and
Community Development hearing:*

**Streamlining and Strengthening HUD's Rental
Assistance Programs**

August 1, 2012

Chairman Menendez and Ranking Member DeMint:

On behalf of the Corporation for Supportive Housing (CSH), I appreciate your consideration of my statement in support of Congressional efforts to reform, improve and achieve cost efficiencies and savings in HUD's Section 8 voucher program. CSH has long advocated for these reforms as they've taken shape in various legislative proposals, including the Section 8 Voucher Reform Act (SEVRA). We recognize this hearing is coming late in the legislative session, but we encourage the Subcommittee and Full Committee to work in earnest to achieve consensus among stakeholders and pass meaningful reform as soon as possible.

CSH is a national non-profit organization that works in communities across the country to create affordable housing linked to services that prevent and end homelessness. Our hub offices are located around the country, including in the Chairman's home state of New Jersey. Supportive housing is a highly successful and cost-effective model for reducing homelessness, particularly for families and individuals with the greatest barriers to housing stability.

Although today's hearing is not focusing on a specific legislative proposal, CSH would like to convey that the core of legislative proposals encapsulated in the different forms of SEVRA would bring many positive improvements to the Section 8 program and assist communities in their work to end homelessness through supportive housing. These core proposals would stabilize the voucher program with a permanent funding policy, while simplifying the rules about how to calculate tenant rents and streamlining the housing inspection process. As a result, the voucher program will run more efficiently and there will be less unnecessary paperwork for all parties involved — housing authorities, tenants, and property owners.

Improving the Section 8 program is critical to our work to end chronic homelessness. A report published by the National Alliance to End Homelessness stated, "Housing vouchers are successful in helping families exit homelessness and can protect poor families from becoming homeless. The idea that adequate amounts of affordable rental housing would prevent and end family homelessness is intuitive. It is also firmly grounded in the research literature on the causes of homelessness and on the efficacy of programs that seek to end homelessness for individual families."

These programs, providing help paying the rent for millions of Americans of limited means, are vitally important for preventing homelessness and for ending it when it occurs. In recent years the role of these programs in reducing homelessness has come to be recognized more broadly, as leading Public Housing Agencies (PHAs) have become more involved in solutions to homelessness in their communities.

The remainder of our statement will convey our position on certain specific policy proposals that have varied in different versions of reform proposals.

Project-Basing Section 8 (PBV)

People who are homeless, or who are very low-income and living with physical disabilities or mental illness, often have difficulty obtaining housing with a tenant-based voucher. Identifying suitable apartments, negotiating lease agreements, and competing with other voucher holders proves difficult when these populations try to utilize a tenant-based voucher. Project-basing solves this problem by offering the rental subsidy tied to a unit.

From a development perspective, project based vouchers are critical to creating supportive housing for the homeless and disabled persons for several reasons:

- In underwriting housing for homeless or for disabled people with services needs, investors must know how the gap will be filled between the tenants' very low income and the cost of operating the property. Obtaining these vouchers can be a "make-or-break" factor to a development proceeding.
- Demonstrating that Section 8 vouchers will be project-based to a development makes investors more likely to provide private capital because rental income is put on stronger footing. This reduces the need for other taxpayer-funded public subsidies.
- Developing supportive housing requires using a mix of financing sources including Low Income Housing Tax Credits. Several housing finance agencies, including the Illinois Housing Development Authority, award extra points in their tax credit allocation to those developments utilizing project based section 8.

It is worth noting that supportive housing developments that utilize project based section 8 often serve families or individuals who would be of very high cost to the taxpayer if they were not stably housed. Homeless and low-income disabled persons are typically uninsured and often access expensive public systems including emergency rooms, detox facilities, and other services to address complicated needs exacerbated from living on the streets or in shelters; these costs can be avoided thanks to a stable and supportive housing setting.

Therefore, CSH urges Senators to preserve provisions included in a December 2010 draft circulated among House and Senate staff related to project-basing Section 8 vouchers including:

- **Allow a PHA to use an additional five percent of authorized vouchers to serve disabled or homeless populations or in areas where vouchers are hard to use.** A PHA is currently restricted to project-base only 20% of the voucher funding. Allowing a PHA to provide an additional 5% of vouchers as project-based vouchers will enable them to increase supportive housing for these targeted populations.
- **Increase the number of units in smaller properties to which a PHA can provide project-based voucher assistance.** Currently, a PHA may only provide PBVs to 25% of a building's units, unless it is serving elderly or disabled people along with supportive services. While this promotes income mixing, it can also be detrimental to creating smaller affordable housing developments. Bill language should allow for the greater of 25% of all units or 25 total units per development to be project-based. Modifying this restriction will make it easier to develop affordable rental units in rural and suburban communities.

- **Enable a PHA to provide additional project-based vouchers to properties in tight rental markets.** In certain rental markets across the country, the demand for rental housing has grown rapidly. For every one unit of available affordable rental housing, there are three families waiting. Allowing a PHA in these types of rental markets to provide assistance to 40% of dwelling units in a building will not only increase the supply of affordable rental housing in these tight markets, but also make the housing development more financially feasible.
- **Permitting owner-managed, site-based waiting lists.** This provision would be helpful in supportive housing and other special needs housing because it would allow the owner to affirmatively market to the desired disabled population that may be required by other service dollars in the mix. Because some Housing Agencies screen out certain hard-to-serve populations, it would make it easier for the owners to “screen in.” We also believe owner-managed waiting lists have the potential to reduce the time that a unit remains vacant in between tenants.
- **Ease administrative burdens on development initiatives for PHAs.** In cases where conversion and redevelopment of public housing is authorized and overseen by HUD, PHAs should not have to go through additional burdensome administrative steps to project-base the replacement vouchers they are awarded by HUD. Providing this limited exemption will enable a PHA to move forward on a redevelopment initiative and preserve former public housing properties without any unnecessary administrative delays.
- **Modify how a PHA allocates project-based vouchers.** Current law enables a PHA to provide 20% of their voucher funding to a project-based voucher program. Each PHA is authorized a set number of vouchers it can provide to the community. Changing the limitation to be based on authorized vouchers instead of funding will make it easier for a PHA and HUD to track, facilitating oversight of the program.
- **Clarify that owners of multifamily properties may evict tenants only for serious violations of terms of lease or violations of applicable law.** Current law enables an owner to evict a tenant in a PBV unit without cause at contract renewal, which will ultimately reduce the project-based assistance available to low-income families. This change will ensure that an eligible family currently receiving assistance will continue to receive assistance and not at the discretion of a multifamily owner. Multifamily owners will still be able to enforce lease terms and utilize remedies available to them if a tenant is in violation of the lease. This is the same policy that applies to owners of multifamily properties assisted by one of HUD’s older section 8 programs.

These changes to the PBV program will help increase the supply of affordable rental housing, provide supportive housing for vulnerable populations and streamline administrative processes for PHAs.

Minimum Rent and Hardship Exemption

CSH and many of our partners have conveyed to Congress and the Administration our opposition to proposals to increase minimum rents, particularly in the context of an important demographic trend over the past several years: a pronounced increase in the number of extremely poor families with no income from government benefits, and no or very little income from employment. This trend, largely the result of high rates of unemployment at the bottom of the labor market and changes in federal, state and local government support for low-income people,

has contributed to increases in the number of people in “deep poverty,” i.e. with incomes less than half the federal poverty level. These are the families that are most likely to become homeless without subsidized housing. Many face multiple barriers to employment.

One proposal in the House of Representatives would raise the allowable minimum rent from \$50 per month to \$75 or 12 percent of the applicable fair market rent, whichever is higher. Twelve percent of FMR will be higher for most families, including those in at least the high-rent areas of every state. For example, allowable minimum rent in Orange County, CA for a two-bedroom apartment would be \$198; in the Bronx, \$171; in Charlottesville, VA, \$123; in Birmingham, AL, \$90.

Current law, of course, already allows PHAs to establish minimum rents of up to \$50, and most have. Thus the idea that “everyone should pay something” has already been entrenched in federal law and local PHA practice. The existing policy affects households with the lowest income, who under normal rent-setting rules would have a rental and utility obligation (generally 30 percent of income) of less than \$50; i.e. households with income less than \$167 per month. For the lowest-income people who are unable to find work, the obligation to pay minimum rent can leave them dependent on violent relationships or exploitive economic transactions. In the current job market, those with the least competitive resumes are unlikely to find other viable options.

Under the governing statute, PHAs and landlords are supposed to recognize “hardship exemptions” from minimum rent policies. There are no standards for requiring PHAs to coherently explain hardship exemptions to tenants who may have cognitive or psychiatric disabilities or severe educational deficits, or for making sure that explanations are given at a relevant time. Anecdotal reports from the field and the one available HUD study (www.huduser.org/publications/pdf/Rent%20Study_Final%20Report_05-26-10.pdf) indicate that very few tenants receive hardship exemptions.

In some cases, minimum rents would be doubled, tripled, quadrupled or more. The impact would be an economic burden on the very poorest households. While the amounts may seem trivial to people with professional salaries, for people struggling to survive and feed their children with sporadic low-wage employment, an increase of \$25, \$50, \$100 or \$150 per month can make the difference between housing stability and eviction. People evicted from assisted housing are known to be at extremely high risk of immediate homelessness.

While we encourage the Committee to reject proposals to increase minimum rent, should it find the provision necessary it is critical that corresponding provisions be included to improve how tenants can successfully apply for a hardship exemption. As a starter, any family that is exiting homelessness should have a presumption of hardship; the agency will still surely review the tenant’s finances, however we believe hardship should be presumed. Further, there should be an affirmative burden placed on the PHA to demonstrate the advertisement and availability of the exemption is made known and available to any and all families who may be subject to minimum rent payments.

Sponsor-basing Section 8

We also encourage the Committee to work with HUD and other stakeholders and include authorization for PHAs to sponsor-base Section 8 vouchers for the purposes of combining housing and supportive services for highly vulnerable homeless individuals and families. This proposal, which was outlined in the President's FY13 HUD budget request, would provide an important new tool for PHAs to help end homelessness. Advocates and HUD have been in contact since release of the Budget request and while we have some suggestions of how to revise the exact language, we believe the Committee should work to achieve consensus and include the proposal in a reform bill.

Currently Section 8 rental assistance is tied either to the tenant (tenant-based) or to a specific housing unit or building (project-based). In a sponsor-based program, a non-profit organization that works with homeless people in the community and helps them access crucial supportive services holds the voucher and is able to either lease a unit on behalf of the tenant or work directly with them and the landlord to help facilitate lease-up.

The Section 8 Rental Assistance program is HUD's largest affordable housing program and provides critical rent assistance to low and extremely low-income families and individuals. However, for the reasons described below, in most communities a cohort of highly vulnerable homeless people are often excluded from being able to access this successful program. A sponsor-based program adds another tool to the toolkit for how a PHA can help serve families who might benefit from supportive services. In our judgment, a properly designed sponsor-based program can offer a greater level of accessibility and choice for formerly homeless than the tenant-based program.

- The Section 8 application and rental process is especially difficult for people who are homeless with poor rent histories and who may have a disability.
- Housing search can be especially difficult for these populations. Landlords are often reluctant to rent to people with poor rental histories, criminal backgrounds, or who otherwise do not present well when applying to lease a unit. Individuals with no rental histories, such as those exiting institutions or group home situations face similar barriers in using a Section 8 voucher. This fact can make an otherwise valuable voucher effectively worthless for some people experiencing homelessness.
- Waiting lists for a tenant-based voucher are very long in most communities. While this is a problem for all those in need of a voucher, homeless people are especially transient and vulnerable and can be difficult to locate should a voucher become available to them. PHAs rarely have the resources to locate a person if they don't respond to an initial mailing or telephone call.

A key goal of the sponsor-basing program is to affirmatively screen-in to the Section 8 program those homeless individuals with service needs who would likely not otherwise pass Section 8 and/or landlord screening in the community. Sponsor-based rental assistance should be designed to lower the barrier to entry for homeless people who have many challenges accessing stable housing, including more quickly moving someone into a unit and not have them languish on the street or shelter while administrative work is completed. Sponsor-basing also effectively addresses the key barrier described above that many landlords will refuse to rent to persons who

do not present themselves as model tenants or who have had difficult rental histories. In this case the Sponsor assumes primary responsibility for the unit and lease compliance, and encourages more landlords to rent their units to people who they otherwise might not rent to. This provides people involved in the program with greater housing choice, and creates a mechanism for securing additional housing options in the event the participant does not like or have issues in a particular unit or building. In addition, we believe the quality of services may be improved as the Sponsor has a vested interest in the resident's success. Greater accountability for the service provider may also ease concerns of the Housing Authority to engage with hard-to-serve populations.

Sponsor-basing rental assistance is not new, and the President's proposal recognizes the existing effective use of this type of assistance. Sponsor-based rental assistance to help house homeless individuals and families has been a popular and effective use of funds through the McKinney-Vento program (specifically via the Shelter Plus Care program) for many years. In the 2010 McKinney competition alone HUD awarded over \$25 million to 71 projects using sponsor-based assistance. Moreover, many PHAs administer their community's S+C award, indicating that natural capacity may exist for PHAs to take this program to scale.

At least four PHAs with Moving to Work (MTW) status – which gives the PHA regulatory flexibility – have been particularly innovative in improving access to the Section 8 rental assistance program for people with histories of homelessness. In addition to providing a Section 8 voucher to a family or attaching it to a property as in the Project Based program, these PHAs used their MTW status to flexibly add the tool of sponsor-basing a small percentage of vouchers for high-need homeless people. In doing so, they are building off of years of experience with the McKinney-Vento S+C program, which has successfully used sponsor-based rental assistance.

The most prominent feature of a sponsor-based Section 8 voucher is its inherent integration of rental assistance with supportive services to help the resident stabilize in housing and thrive in the community. The combination of affordable housing with flexible, consumer-oriented service delivery has been proven to be a highly effective tool in ending homelessness and improving the lives of highly vulnerable people.

CSH would greatly appreciate the opportunity to discuss the sponsor-basing proposal further with Members of the Committee.

In conclusion, we again thank the Subcommittee for calling this hearing on Section 8 reform proposals and strongly urge you to move forward with a legislative proposal that increases efficiency, lowers barriers to housing, and brings the wonderful yet scarce Section 8 resource to more families in need.

**STATEMENT SUBMITTED BY KRISTINA COOK, CAE, ON BEHALF OF
THE NATIONAL AFFORDABLE HOUSING MANAGEMENT ASSOCIATION**



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**Written Statement of Kristina Cook, CAE
Senate Banking, Housing, and Urban Affairs Subcommittee on Housing, Transportation,
and Community Development
"Streamlining and Strengthening HUD's Rental Housing Assistance Programs"
August 1, 2012**

Thank you, Chairman Menendez and Ranking Member DeMint for permitting me to submit this statement on behalf of the National Affordable Housing Management Association (NAHMA). NAHMA is a non-profit trade association that represents multifamily property managers and owners whose mission is to provide quality affordable rental housing. NAHMA is also the voice in Washington for 20 regional affordable housing management associations nationwide.

NAHMA strongly supports HUD's rental housing assistance programs, particularly the Section 8 Housing Choice Voucher (HCV) and the Project-Based Section 8 programs. The HCV is a versatile program that helps stabilize the lives of millions of families by providing them access to affordable housing of their choice. The Project-Based Section 8 program provides safe, clean, and affordable housing to America's most vulnerable households. Many of these properties also provide critical services to their residents, the majority of which are either elderly or disabled. Overall, these programs are examples of successful public-private partnerships. NAHMA looks forward to working with this Subcommittee to make further improvements that will streamline and strengthen the HCV and Project-Based Section 8 programs.

To that end, we urge the Subcommittee to move forward with Section 8 reform legislation. NAHMA strongly supports a number of reforms to HUD's rental assistance programs that were included in the discussion draft of the Affordable Housing and Self-Sufficiency Improvement Act of 2012 (AHSSIA) as passed by the House Financial Services Insurance, Housing, and Community Opportunity Subcommittee on February 7, 2012.¹ The same provisions are also found in a later April 13 AHSSIA Amendment in the Nature of a Substitute,² which was expected to be offered during the full Financial Services Committee markup. Many of these changes

¹ A copy of the AHSSIA bill passed by the House Subcommittee on February 7, 2012 is available at: <http://financialservices.house.gov/UploadedFiles/BILLS-112hr-PH-AHAdd.pdf>.

² The legislative text of the Amendment in the Nature of a Substitute is available at: <http://www.nahma.org/Leg%20area/04-12-12%20AHA%20Substitute.pdf>

would make the HCV and project-based Section 8 programs more user-friendly for rental housing providers, current residents, and applicants for assistance.

My statement will focus on the most important reforms to NAHMA's property managers and owners proposed in the April 13 AHSSIA Substitute Amendment.

Inspection of Dwelling Units

The streamlined inspection process proposed in Section 101 of AHSSIA would remove a major obstacle for voucher holders in tight rental markets. Before a Section 8 voucher holder can rent a specific apartment, the administering agency must first inspect the unit to confirm that it complies with HUD-prescribed Housing Quality Standards (HQS). The resulting delays in lease-ups cause apartments to remain vacant. The financial implications of such delays are enough to deter many owners from participating in the program, especially in low-vacancy markets.

The bill proposes common-sense reforms to the inspection requirements that will help expedite the lease-up process for voucher holders. These changes have received bipartisan and industry support. In particular, NAHMA strongly supports inspection reforms which would:

- Permit housing agencies to approve lease-ups in properties which passed inspections under a program with standards as least as stringent as the HQS, such as the HOME or the Low Income Housing Tax Credit (LIHTC) program;
 - Streamlining this process will provide the residents with much needed housing sooner, ensure owners are not losing income due to delayed move-ins, and encourages other owners to participate in the program;
 - Moreover, this reform will help the voucher program work better with other federal rental assistance programs;
- Allow minor repairs to be made after the tenant moves into the apartment; and
- Give public housing agencies (PHAs) the discretion to inspect units occupied by voucher holders every other year, rather than annually, for the term of the HAP contract.

Rent Reform and Income Reviews

NAHMA has been especially supportive of provisions in Section 102 of AHSSIA which would replace the annual income certification requirement for families on fixed incomes with a requirement to review their incomes at least once every three years. We believe this change will greatly assist elderly and disabled

households whose income and sources of income do not vary much from year-to-year. It will also reduce the administrative burdens on property owners, management agents, and tenants of the HCV program.

Targeting Assistance to Low-Income Working Families

NAHMA supports the changes in Section 104 of AHSSIA which will allow owners and PHAs to expand their income targeting for public housing, vouchers, and project-based Section 8 assistance. This change will help house families with incomes that do not exceed the higher of the poverty line or 30 percent of area median income.

PHA Project-Based Assistance

Project-based vouchers (PBV) are an important tool in expanding the supply of affordable housing, particularly when used with the tax credit program. These vouchers allow owners to build affordability into their properties.

Section 106 of AHSSIA extends the maximum allowable housing assistance payment (HAP) contract term between the PHA and owner from 15 to 20 years. In our members' experience, lenders prefer 20-year rental assistance contracts to short-term contracts. NAHMA supports this change because we believe it will help developers to secure more favorable underwriting terms and streamline the use of PBVs with other federal housing programs, including the LIHTC.

Establishment of Fair Market Rent

In previous Section 8 reform efforts, HUD sought to eliminate the statutory requirement to publish Fair Market Rents (FMRs) on October 1. NAHMA is pleased that Section 107 of AHSSIA preserves this mandate, and it ensures that interested stakeholders and members of the public will continue to have a meaningful opportunity to comment on FMRs.

Rent Supplement and Rental Assistance Program Contract Conversions

The Consolidated and Further Continuing Appropriations Act of 2012 (P.L. 112-55, H.R. 2112) granted HUD authority to conduct a Rental Assistance Demonstration (RAD) program. The purpose of the RAD is to test the feasibility of attracting private capital to preserve properties assisted under HUD's public housing, moderate rehabilitation, Rent Supplement (Rent Supp) and Rental Assistance Payment (RAP) programs. The key to attracting the private capital is converting the current rental assistance on these properties to long-term project-based Section 8 contracts. NAHMA remains very interested in the RAD provisions which allow owners

of RAP and Rent Supp properties to convert their tenant protection vouchers to project-based housing choice vouchers under certain conditions.

Section 202 of AHSSIA builds on RAD's preservation options for owners of Rent Supp and RAP properties. It authorizes HUD to convert existing Rent Supp and RAP contracts to Section 8 project-based rental assistance contracts, subject to the terms of section 524 of the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRAA). It also directs HUD to treat the resulting contracts as renewals, and authorizes appropriations to complete the conversions.

NAHMA supports these new tools to preserve and maintain the affordability of RAP and Rent Supp properties.

Access to HUD Programs for Persons with Limited English Proficiency (LEP)

Title VI of the Civil Rights Act prohibits discrimination based on national origin, as well as policies or actions which have *the effect of excluding* eligible foreign-born individuals from participating in federal programs. The Federal Government's position (articulated by the Executive Branch) since August of 2000 has been that LEP obligations exist for agencies and recipients of federal funding under Title VI of the Civil Rights Act. Therefore, failure to bridge the communication barrier for a person with LEP may be discrimination based on national origin under Title VI, because the language barrier results from the person's national origin.

HUD's LEP guidance became effective on March 7, 2007. It states that recipients of HUD funding, including affordable rental housing providers, have an obligation to provide translated documents and oral interpretation services to persons who have difficulty communicating and reading in the English language. Originally, HUD provided no additional funding for recipients to offset the costs of providing language services. Another major concern with the guidance was HUD's failure to identify a specific list of documents housing providers would be expected to translate. Affordable housing providers estimated translation costs to comply with the obligations described in the guidance could exceed \$10,000 per language per property. They also argued such costs could divert precious funds from maintenance and operations, which would jeopardize the federal investment in HUD-assisted properties.

Mr. Chairman, thanks in large part to your leadership on this issue, housing authorizers and appropriators recognized that the widespread duplication of effort to translate the same documents across properties would result in inconsistent quality of service to LEP persons. To ensure limited federal funds were used most efficiently, Congress provided HUD with modest appropriations to create translated materials and other programs to assist LEP persons. HUD's translations are posted to its Fair Housing and Equal Opportunity webpage.

As appropriations become increasingly limited, it is essential to authorize a LEP technical assistance program within HUD. Without continued federal support, the financial obligation to pay for the language services will fall solely on HUD-assisted properties, public housing agencies and other HUD recipients. Mr. Chairman, in the 110th Congress, you introduced legislation to address these very issues. S. 2018 was a bill to allow HUD to better serve persons with limited English proficiency by providing technical assistance to recipients of Federal funds. Section 501 of AHSSIA includes many of the same ideas found in S. 2018. While there are some differences in the legislative language of the bills, some common elements would:

- Create a task force of industry and civil rights stakeholders to identify vital documents (to include both official HUD forms and unofficial property documents);
- Require HUD to translate the vital documents within six months; and
- Authorize a HUD-administered telephone hotline to assist with oral interpretation needs.

This approach represents an efficient overall use of limited federal housing dollars. It ensures meaningful access to HUD's housing programs for eligible persons with LEP. At the same time, it also relieves housing operators of a costly unfunded obligation, and it offers a higher-level of quality control over the services provided to LEP persons. As a result, we strongly encourage the Subcommittee to include language authorizing an LEP technical assistance program as part of any affordable housing reform legislation.

Conclusion

NAHMA strongly supports common-sense reforms to improve the efficiency of Section 8 programs and to reduce operating costs for housing providers. My statement describes the reforms which are most important to NAHMA members. On behalf of NAHMA, I respectfully urge this Subcommittee to move forward with Section 8 reform legislation forward that includes these provisions.

In addition, NAHMA encourages the Subcommittee to be mindful of any potential administrative and/or cost burdens that a Section 8 reform bill could impose on housing providers. These types of mandates defeat the goals of Section 8 reform, and they should not be written into legislation.

Thank you again for the opportunity to comment on proposals to streamline and strengthen HUD's rental assistance programs. NAHMA looks forward to working with the Subcommittee to improve these programs.

MEMORANDUM: PROPOSED REGULATORY AND ADMINISTRATIVE REFORMS AND STATUTORY LANGUAGE**Memorandum**

To: Office of Public and Indian Housing, U.S. Department of Housing and Urban Development
From: National Association of Housing and Redevelopment Officials
Date: 5/24/2011
Re: Proposed Regulatory and Administrative Reforms and Statutory Language

Congress passed major reforms to the Section 8 Housing Choice Voucher program (HCV) in 1998 under the Quality Housing Work and Responsibility Act (QHWRA). The act was designed to give public housing agencies (PHAs) the maximum feasible amount of authority, discretion and control, paired with an appropriate level of accountability to residents, localities and the general public. NAHRO believes that it is now time for HUD to build on the successes achieved through QHWRA.

House report language accompanying the FY 2006 HUD appropriations bill directed HUD to provide Congress with a list of administrative and regulatory changes that could be put in place in time to benefit PHAs for 2006. Under House Report 109-153, the House Appropriations Committee "direct[ed] the Department to take whatever regulatory and administrative actions it can to increase flexibility, reduce administrative burden and streamline program implementation." The Committee directed HUD "to provide a full report on the regulatory and administrative actions available to the Department by September 1, 2005." Congress has included similar direction to HUD in several subsequent conference reports accompanying enacted appropriations bills.

Since August 2003 and in successive years, NAHRO has requested that the Department move forward with the regulatory reforms in order to achieve greater program streamlining and efficiency, greater local flexibility, and cost savings within the HCV program. In the majority of cases, these regulatory and administrative reforms do not require any new legislation or additional appropriations. NAHRO's recommendations attempt to strike the right balance between reducing administrative burdens resulting from Section 8 tenant-based voucher statutes, regulations and administrative requirements along with increasing the availability of existing financial resources to PHAs for purposes of augmenting their directly appropriated ongoing administrative fees.

The attached documents list our priorities within each of the three major categories of regulatory and administrative recommendations. Attachment 1 includes recommendations for reducing PHAs' administrative burdens. Attachment 2 deals with improving opportunities for ongoing administrative fee revenues within existing resources. Attachment 3 deals with balancing improvements to HUD's Information Technology systems with ongoing administrative fee funding, as well as improving HUD's regulatory framework, and HUD's HCV Administrative Fee Study. These recommendations, if implemented, will provide PHAs with substantial relief and could be implemented in a short period of time.

In addition to our regulatory and administrative recommendations, we have enclosed newly developed recommended legislative language (Attachment 4) giving the HUD Secretary the authority to waive three specific Section 8 tenant-based voucher statutory requirements. We are providing this language to you in the hope that the Department will seek quick enactment through the identification of a viable legislative vehicle.

Upon request, we can provide copies of all of NAHRO's previously recommended reforms to Section 8 voucher programs, included recommendations related to the administration of Section 8 tenant-based voucher programs; the use of Housing Assistance Payments and Net Restricted HAP Assets; the Section Eight Management Assessment Program (SEMAP); portability; and improvements to HUD's Information Technology systems, including PIC and the Voucher Management System (VMS). All of our additional regulatory and administrative reforms in these areas were filed on May 3, 2011 with HUD's Regulations Division with the Office of General Counsel in response to Executive Order 13563- Reducing Regulatory Burden; Retrospective Review.



Attachment I - Reducing PHAs' Administrative Burdens

1) Suspend SEMAP Ratings for Purposes of Sanctions and Provide Advisory Scores Only (24 CFR 985)

NAHRO understands the importance of a viable Section Eight Management Assessment Program (SEMAP). We were pleased to participate in the Department's initiative on SEMAP reform in March 2010 along with PHAs and PHA industry groups, and we submitted extensive recommendations to HUD PIH regarding SEMAP reform on October 30, 2010. PHAs experienced attempts by some during the last administration to unfairly characterize PHAs' program performance and were grateful to be able to cite HUD's SEMAP ratings for their respective agencies in order to refute those statements. HUD's SEMAP ratings serve an important purpose for HUD, Congress, the communities in which PHAs operate and American taxpayers who pay for the program.

While less than three percent of PHAs that administer the HCV program are rated by HUD's SEMAP as "troubled," 25 percent of respondents to NAHRO's recent survey indicated that, if the presently anticipated cuts to the administrative fee are implemented, they would fall into "troubled" SEMAP status. Sixty-two percent of respondents presently rated as "high-performers" under SEMAP stated that they would fall from "high performer" to "standard performer" SEMAP status.

This said, the SEMAP system assumes that PHAs will have adequate resources to comply with program requirements. Given the prospective dearth of financial resources provided to PHAs to administer Section 8 voucher programs in FY 2011 under P.L. 111-383 it is appropriate that the Department consider suspending SEMAP ratings for purposes of sanctions, until such time as ongoing administrative fees are substantially restored. Until that time, HUD should provide PHAs with SEMAP scores that are advisory only. [Any PHA with "troubled" SEMAP ratings prior to the enactment of P.L. 111-383 should remain subject to its Corrective Action Plan (CAP) with HUD, however, special consideration should be given these PHAs with respect to meeting the time frames for their CAPs.]

We recognize that it is likely that advisory SEMAP scores will fall due to dramatically reduced ongoing administrative fees. However, we believe it is important that Congress understand that proper funding of PHAs' ongoing administrative fees are necessary to run successful Section 8 voucher programs in compliance with program rules.

We appreciate the Department's initiative on SEMAP reform in March 2010, as well as your involvement of PHAs and PHA industry groups' ideas on these important program areas.

Accelerating the rulemaking process in this area and adopting our SEMAP recommendations above in the meantime would be most appreciated by NAHRO and our PHA members.

2) Suspend or modify certain program requirements pending restoration of adequate funding for administrative fees

NAHRO also suggests that until adequate funding for administrative fees is restored, the Department should modify program requirements to reflect the capacity of agencies under reduced funding levels. Significant administrative relief is needed in a timely fashion.

We believe the following requirements should be modified or suspended:

- Family income verification – suspend the verification requirement and rely on family certifications or, alternatively, modify this requirement to simplify it (See specific suggestions described below);
- Reexamine family income less frequently than annual;
- Conduct housing quality inspections less frequently than annually;
- Eliminate quality control inspections;
- Relax deadlines for correction of housing quality deficiencies other than exigent health and safety violations;
- Eliminate sanctions for failure to use at least 90% of vouchers or funding;
- Suspend requirements to expand housing choice outside areas of poverty or minority concentration; and
- Suspend requirements to enroll families in the family self-sufficiency (FSS) program and to help FSS families achieve increases in employment income.

There are a number of requirements that we believe should not be suspended or modified. These are:

- Proper selection of applicants from the housing choice voucher waiting list including income targeting;
- Sound determination of reasonable rent only initial rent reasonableness determinations (but not for annual rent reasonableness determinations);
- Establishment of payment standards within the required range of the HUD fair market rent;
- Correct calculation of the tenant share of the rent and the housing assistance payment. However, when it comes to aggregating “improper payments” from PHAs’ income and rent calculations, we believe that PHAs should be exempt for financial penalties associated with those amounts;
- Maintenance of a current schedule of allowances for tenant utility costs;
- Ensure units comply with the housing quality standards before families enter into leases and PHAs enter into housing assistance contracts for the lease-up of initial units to the program as well as interim or tenant-complaint inspections of emergency health and safety violations (but not for annual HQS inspections); and
- portability.

3) Diminished Compliance with HCV Program Requirements Due to Funding Necessitates a Change in HUD's Response to Recommendations from the Office of the Inspector General (24 CFR Vol. 5, Subtitle B, Chapter XII)

As you know, HUD's Office of the Inspector General conducts audits, inspections and evaluations of PHAs' administration of HUD programs including Section 8 tenant-based voucher programs. In light of the drastic downward pro-rations of ongoing administrative fees in Section 8 tenant-based voucher programs and PHAs' substantial non-compliance that may ensue, NAHRO recommends that HUD issue guidance to the Department Field and Regional Offices regarding future OIG audits. With respect to periods when ongoing administrative fees pro-rations are below 90 percent, we recommend that HUD instruct its Regional and Field Offices that, absent HUD OIG findings of fraud or abuse, any financial penalties associated with programmatic non-compliance not be upheld by the Department. PHAs have every intention to fully comply with HUD requirements. Instead of imposing financial penalties that would further erode the ability of a PHA to fully comply, HUD should work closely with PHAs to develop and implement appropriate corrective actions to remedy the findings and be in compliance with HUD requirements.

4) Reforming HUD's Monthly Accrual Accounting Method in VMS

In terms of total HAP expenditures, the differences between the method HUD currently requires of PHAs in their monthly VMS submissions and the recommendation where income that is not counted until cash (or a check) is actually received and Housing Assistance Payment (HAP) expenses are not counted until they are actually paid, are immaterial. As such, NAHRO's recommended accounting method (attached) would be compliant under Generally Accepted Accounting Principles (GAAP) rules.

5) Suspend Requirement for PHAs to Verify Households' "Excluded Income" Other Than Through Self-Certifications

Simplify PHAs' rent calculations by suspending the requirement to verify "excluded income" items. Under this recommendation, households would still be required to report "excluded income" items but during the suspension period, PHAs should be allowed to accept household's self-certifications on "excluded income" items such as:

- any imputed return on assets;
- food stamps;
- WIC;
- any amounts that would be eligible for exclusion under section 1613(a)(7) of the Social Security Act (42 U.S.C. 1382b(a)(7));
- deferred disability benefits from the Department of Veterans Affairs that are received in a lump sum amount or in prospective monthly amounts;
- earned income of any dependent earned during any period that such dependent is attending school or vocational training on a full-time basis or any grant-in-aid or scholarship amounts related to such attendance used for the cost of tuition or books;

- any amounts in or from, or any benefits from, any Coverdell education savings account under section 530 of the Internal Revenue Code of 1986 or any qualified tuition program under section 529 of such Code; and any amount required by Federal law to be excluded from consideration as income.

We recommend HUD permit PHAs to eliminate this requirement at their discretion.

6) Revise Hierarchy of Income Verification Methods by Allowing Use of Households' Pay Stubs as in the First Set of Rankings (24 CFR 960.259(c) and 24 CFR 982.516(a))

Even with the existing Enterprise Income Verification (EIV) system, PHAs still need to rely on traditional, manual third party verification of income approximately 40 percent of the time, which is time consuming, burdensome and administratively expensive for PHAs. In furtherance of rent simplification we recommend HUD revise its hierarchy of income verification methods, by giving PHAs the opportunity to use household provided pay stubs to verify income from employment as a first ranked item in the hierarchy. This would help to streamline the verification of income.

7) Implement Simplified Process for Identifying Household Income Prior to Rent Calculations, to Reduce Improper Payments (24 CFR § 5, 92, and 908)

Had it not been withdrawn, HUD's January 27, 2009 final "rent refinement" rule definition of annual income would have enabled PHAs at their discretion to "apply past actual income received or earned within the last 12 months of the determination date, as HUD may prescribe in applicable administrative instructions..." Regrettably, after taking office, HUD withdrew one of the most important aspects of the original "rent refinement" rule after its 120-day moratorium on pending regulations. The purpose of HUD's rent refinement rule was to strengthen income and rent integrity, as well as simplifying the income process to render it more accurate, thereby reducing over-payments. Reverting back to the existing definition of annual income did not accomplish one of the main original proposed purposes of the "rent refinement" rule."

On December 29, 2009 HUD wrote, "HUD is aware of the need to address the issue of annual income and intends to address this issue." It is worth noting that when the Department submitted its FY 2012 budget request containing a number of "rent simplicity" provisions from SEVRA, absent were provisions relating to improved household income and asset determinations by enabling PHAs to use participants actual past income from the previous twelve-months or current income as anticipated for the following twelve-months. This specific item from the original "rent refinement" interim rule is something that HUD can do now through regulation without having to introduce legislative language or wait to have legislative language enacted into law.

Under the January 27, 2009 final rule which was later suspended and rescinded by HUD, PHAs would have been able to establish policies that were beneficial and fair to low-income households, more administratively manageable to PHAs, and responsible to taxpayers who fund the applicable programs. This is particularly true in years when less than 100 percent pro-ration is provided in Housing Assistance Payments and administrative fees as has been the case and may continue in the

future. PHAs should not have to serve fewer families nor to continue to have existing households paying higher rent burdens than they otherwise could under the January 27, 2009 final rule's definition of annual income.

8) Allowing PHAs to Use Applicable Inflation Factor for Households with Fixed Incomes

PHAs were permitted to apply across the board increases to social security without third party documentation back in the 1970's. We are not certain when or why this changed. For elderly and disabled households living on fixed incomes, the only annual adjustment to income is typically the cost of living adjustment from the Social Security Administration, which can be easily calculated by the PHA without administering the entire recertification process. For any households where 90 percent or more of their household income are from a fixed source(s), HUD should permit PHAs to apply the applicable annual adjustment factor to their fixed benefit (e.g. SS or SSI) or income verified HUD's EIV system to determine their annual income for rent calculation. In the years in which PHAs' will not be required to conduct a comprehensive annual household recertification, household income would be recertified through a review of income documents provided by the household and cross-referenced with HUD's Enterprise Income Verification (EIV) system. The household would be required to certify that the income reported is true and complete for a given period of time. Taking these measures would meet the statutory requirement for annual reviews of household incomes and reduce PHAs' administrative burdens.

9) Self-Certified Household Assets (24 CFR § 960.259 and 24 CFR § 982.516)

We recommend following what is done under the Low-Income Housing Tax Credit (LIHTC) program by allowing households to self-certify under the pains and penalties of perjury their assets of less than \$5,000. Under this system, if a household certifies assets of less than \$5,000 than a PHA would have satisfied its requirement. Generally only a few elderly tenants have large amounts of assets. The current requirement for PHAs to verify households' six month average checking account balances that contain modest sums is time consuming and impractical.

10) Allowing PHAs to Use Income and Household Composition Determinations by Other Applicable Governmental Entities

At the discretion of the PHA and with a safe harbor provision from HUD, the Department should enable household income and composition recertifications performed by other federal, state, or local government entities (for example, LIHTC-assisted households, TANF agencies) to stand in place for PHAs' eligibility determinations of applicant households and recertifications of participant households. This documentation could be honored by PHAs at their discretion, as defined in their Admissions and Occupancy Plan, so long as the date of determination is within 12 months of applicant households' eligibility determination or participant households' interim or annual recertification effective date.

11) HUD's Enterprise Income Verification (EIV) System

HUD's Enterprise Income Verification (EIV) system is a good concept. However, HUD's recent increased requirements of PHAs during a time of dramatically reduced ongoing administrative fees places additional economic constraints on PHAs. Just as PHAs' discretionary authority to run criminal background checks during eligibility determinations (except for sex-offenses and methamphetamine sale and distribution which are mandatory), the EIV functions described below are important to preserving the integrity of the program. Dramatic reductions in PHAs' ongoing administrative fees make it financially infeasible to perform many of the administrative functions that are important to taxpayers, PHAs, and the communities they serve. Administrative functions which were formerly discretionary under HUD's EIV guidance, are now mandatory, and as a result require PHAs to amend their Administrative Plans to include:

- Former Tenant Search - For adult members in a household to determine if there are monies owed or an adult member was in non-compliance with program rules. If there is a household debt owed to any PHA, then a PHA must notify household at their last known address. PHAs must document in the file that they ran this search and provide the results;
- Deceased Tenant Report – PHAs must run this report on a monthly basis. PHAs must run this report twice for each HAP check run; once before cutting HAP check amounts and another time before releasing HAP payments;
- Identification Verification Report – PHAs must run this report on a monthly basis. If PHA has correct verification information for household members (i.e. Birth certificate for date of birth, Social Security Card for Social Security Number, last name and first name) but the Social Security Administration has incorrect records, then PHAs must enter incorrect information into the system so that the record submission does not fail. In these instances, the household has to go to the Social Security Administration then provide their corrected information to the PHA which has to send it to HUD Headquarters which in turn has to provide it to the US. Social Security Office Headquarters in Baltimore;
- Immigration Report – PHAs must run this report on a monthly basis. PHAs must provide "H" numbers and "Alt. ID" numbers to particular households not claiming US Citizenship. In these instances, PHAs have get documentation from the Department of Homeland Security or the Social Security Administration;
- Multi-Subsidy Report – PHAs must run this report on a monthly basis. PHA has to monitor and update quarterly a household's composition of household members that no longer reside in a unit. If applicable, the PHA must terminate duplicate assistance or require family to immediate terminate assistance in other program. PHAs must maintain documentation of the result of duplicate assistance in each household file;
- New Hires Report – PHAs must run this report on a monthly basis;

- Existing Tenant Report – PHAs must provide household with results of search and secure documentation of their move out of assisted dwelling unit. If necessary, the PHA must contact the other PHA/landlord of the households' current status;
- Income Report – PHAs must compare household information with the information provided in EIV; and
- Debts Owed Report – PHAs must clear backlog of debts owed by December 31, 2011 and notify household at their last known address.

In practice EIV presents some issues that make the eligibility determination process more challenging for PHAs. EIV would be more helpful to PHAs if the information contained in EIV were more current and more accurate. In its current condition, EIV actually creates more work for PHAs. Its cost benefit value is questionable. Listed below are PHAs' insights about the existing EIV system:

- The income verification presented by EIV is at least three months behind the current date. When a PHA interviews a program participant and discusses EIV information with them PHAs find that many clients dispute the accuracy of the EIV reported income creating additional unnecessary burdensome processing steps for PHAs and program participants. An EIV system that were more current and more accurate would streamline PHA processes for verifying income, reduce the current complexity in the eligibility process and increase PHA accuracy rate.
- It is commonplace today to find companies purchased by other companies or companies that operate under another company name (DBA). As a result in many instances the program participant is unable to confirm that the name of the company listed in EIV is their employer. The PHAs program participant does not recognize the name of the company listed in EIV resulting in untimely delays and additional steps in eligibility processing.
- EIV does not include State benefit/income information (i.e. TANF, Food Stamps, Child Support). PHAs are required to verify state income through other means.
- EIV presents a total amount of client income by quarter. To address EIV income discrepancy reports and or to validate EIV's accuracy, the program participant would need to provide pay stubs for a full quarter. Most program participants do not retain their pay stubs for this length of time. As a result, PHAs need to submit a pay verification form to the employer. Too often employers refuse or forget to return the completed wage verification forms. Too frequently PHAs find that when employers do return the wage verification forms the forms are completed incorrectly or the form is incomplete because the employer has omitted some critical information needed to verify EIV; such as average number of hours worked per week.
- It becomes very challenging when the program participant does not recognize the EIV reported name of the company they worked for and staff sends a wage verification form to the

employer and the employer fails to respond to PHA inquiries. This is a common reoccurring condition that appears to be increasing.

- EIV system is down (unavailable for PHA access) periodically which adversely impacts PHA productivity. For example, PHAs received a notice on May 3, 2011 titled, "PIH.RHIIP.TA Message # 2011-28" which states, "Please be advised that there is currently a server issue which will prevent users of the Public and Indian Housing (PIH) EIV system from accessing the PIH EIV system and/or information within the system. We request that users not access EIV until this issue is resolved."
- Using EIV for interim changes serves little or no practical value to the PHA. It helps to identify the few program participants that fail to completely or accurately report income however; because the EIV data is at least three months old, by definition the program participant is performing an interim change reporting a change in income that occurred within the last ten days.

Restoring the rescinded provision of the "rent refinement" rule (described in recommendation number six above) where at their discretion, PHAs could apply households' past actual income received or earned within the last 12 months of the determination date would enable PHAs to utilize EIV to strengthen income and rent integrity, as well as simplifying the income process to render it more accurate, thereby reducing over-payments.

PHAs desire to provide safe, decent affordable housing to eligible households. PHAs also desire to accurately determine income and eligibility of program participants and to make accurate and timely rental housing assistance payments. Now more than ever before, PHAs need HUD's help and cooperation to find reasonable solutions to improving the efficiency and effectiveness of the eligibility determination process. It is our hope that the above information will provide constructive feedback to HUD regarding the EIV initiative and invite HUD to continue a dialogue with NAHRO and PHAs to find reasonable solutions that improve the HCV program.

12) Reforming Utility Allowances (24 CFR 982.517)

The cost of each utility and housing service category must be stated separately. For each of these categories, the utility allowance schedule must take into consideration unit size (by number of bedrooms), and unit types (e.g., apartment, row-house, town house, single-family detached, and manufactured housing) that are typical in the community.

NAHRO recommends HUD to allow interested parties to be able to comment on the utility component of FMRs separately from rent in the overall level of FMRs. If the number of rental observations is sufficient in the American Community Survey and/or American Housing Survey data, HUD should provide PHAs with the utility data it gathers from the annual Fair Market Rent (FMR) calculations, so that every PHA does not have to undertake their own utility studies which can be time consuming and an additional expense. If the number of rental observations is sufficient, PHAs should be able to use simplified utility allowance schedules by bedroom size only, without additional allowances by all building types (i.e. high rise, garden & row, etc.). At

the very least, publishing this utility information each year would enable PHAs to know whether or not utility rates increased by 10 percent or more from a PHA's most recent utility allowances, in order to determine whether or not conducting extensive calculations of utility rates and consumption were needed. In addition, PHAs should be able to use the utility allowance of a household's authorized voucher size if the bedroom size of their leased unit is greater than their authorized voucher size. PHAs should also be allowed to use the lower of their utility companies' "lifeline" rates or the standard commercial rate averages where applicable. These measures would greatly simplify the leasing process for voucher holders and property owners, to help create less programmatic barriers to low-income assisted households accessing the housing market relative to unassisted households.

Alternatively, HUD should publish average annual utility allowances by bedroom size in lieu of utility allowances by structure type or a flat utility allowance by bedroom size. Another approach could be that PHAs would be able to survey their area utility charges and consumption rates, document them, and propose averages by bedroom size, subject to HUD approval. This would significantly reduce the complexity and calculation errors by PHAs for utility allowances and make the program more transparent to prospective property owners and voucher-assisted households.

13) Access to HUD Programs for Persons with Limited English Proficiency (Executive Order 13166)

HUD's current Limited English Proficiency (LEP) guidelines require PHAs, owners and managers to provide written and oral translations of "vital" documents in an array of foreign languages for assisted households with limited English proficiency. Conservative estimates put LEP households in the Section 8 program at approximately 288,000 households nationwide. Document translation rates vary, but a typical lease would probably cost about \$8,000 to translate into a single language, and for all of the owners and agents operating just four HUD programs, the total cost would be over \$60 million, and translations into just three languages for these programs would exceed \$182 million. A single central translation at HUD of all vital program documents and webcast oral translations would provide greater standardization and probably a higher quality of translation at a much lower cost.

Beyond the HUD documents already translated and posted by the Department at: http://portal.hud.gov/hudportal/HUD?src=/program_offices/fair_housing_equal_opp/promoting/lep, NAHRO recommends HUD develop and make available translations of a list of "vital" documents developed through a HUD-convened Task Force, carrying out a plan to improve access to programs and activities for individuals with limited English proficiency, and set up a 24-hour toll-free line for interpretation services. If a reprogramming request to Congress is needed from the Transformation Initiative to pay for HUD's toll free line, NAHRO recommends that the Department make this request. Alternatively, owners and managers should be reimbursed for translation expenses. This recommendation does not include any modification of the title VI Civil Rights Act, rules, regulations, guidance, or orders of general applicability pursuant to such Act, or any executive orders.

14) Initial Inspections of PHA-owned Units under Project-Based Voucher Program [24 CFR § 983.59(f)]

Under the existing Project-Based Voucher (PBV) regulation [24 CFR § 983.59(f)], a PHA that owns or substantially controls an entity that owns a development are required to contract with another eligible entity to perform initial Housing Quality Standard (HQS) inspections. HUD defines a development controlled by a PHA or an entity that is substantially controlled by a PHA which owns a development, where the PHA, instrumentality or affiliate have less than one percent financing or ownership of a development. The practical effect of existing regulations is that in all cases, PHAs are required to spend additional monies to contract for the initial HQS inspections than they otherwise would for any other PBV development or dwelling unit with tenant-based voucher assistance.

HUD's existing regulations not only impose an increased expense for PHAs, but they are inconsistent with other HUD regulations for other PHA-owned project-based developments. PHAs own Public Housing developments and perform inspections on their dwelling units. Both PBV developments owned by PHAs and Public Housing developments owned by PHAs, are subject to quality control inspections by PHA management to ensure that the inspections comply with HUD regulations. In the case of most PBV developments, there are usually other additional layers of financing such as Low-Income Housing Tax Credits, Mortgage Revenue Bonds, etc. The combination of other inspection requirements from the other finance agencies administering tax credits and bonds, provide another check and balance to ensure HUD's housing quality standards are met a minimum, and in many instances require inspections to a more stringent standard.

Although this last point is not directly related to our request for administrative relief within HUD's existing regulatory purview, the Section Eight Voucher Reform Act has a provision that would allow inspections conducted by other entities for tax credit properties for example, to be used in place of a PHA conducted HQS inspection. We are not requesting this provision from SEVRA as it is not within HUD's existing regulatory purview. We mention it simply to illustrate that HUD's existing regulations impose an undue expense on PHAs to contract out initial HQS inspections when they own or substantially control an entity that owns a PBV development, when the PBV developments already receive HQS inspections or inspections at more stringent standards required by other governmental entities.

15) Moving-To-Work (MtW)

The MtW demonstration provides PHAs with a number of waivers of provisions of the United States Housing Act of 1937 designed to help agencies streamline their operations beyond what was authorized in QHWRRA. As HUD described in its report, housing assistance recipient populations are not homogeneous and different needs may begin to be best met by small improvements in administration and implementation of the respective program or programs. MtW agencies may streamline a number of regulations and they may also alter HUD-proscribed procedural requirements at their discretion, to alleviate administrative burdens and/or to better serve local needs. HUD's report also cited PHAs reporting that administrative streamlining resulted in "more rational or meaningful use of staff time," which "improved staff morale and resident/landlord satisfaction with the HA." Beyond cost savings, MtW-enabled administrative reforms have changed the way that PHAs function.

MtW agencies' practices are a good source to learn about the types of regulatory and administrative burdens of which to relieve or modify non-MtW agencies.

Conference Committee Report (House Report 111-366) to the "Transportation / HUD Consolidated Appropriations Act, 2010" (P.L. 111-117) states, "Of the funds transferred, not less than \$45,000,000 is for technical assistance. Funding is also available for research, evaluations and demonstrations. The conferees direct HUD to conduct an evaluation of the Moving to Work demonstration program, to be completed by August 31, 2010." In August of 2010, HUD issued a report to Congress titled, "Moving to Work: Interim Policy Applications and the Future of the Demonstration." NAHRO is seeking clarification from the Department about whether it views the report issued to the Congress in August 2010 as satisfying the conferees directive in House Report 111-366.

With the exception of a few items such as improvements to the delivery of Limited English Proficiency, not all MtW agencies are likely to benefit in the same way as non-MtW agencies from implementation of regulatory and administrative relief. NAHRO would like to explore with the Department and MtW agencies areas of administrative relief for participating agencies.



Attachment 2 - Improving Opportunities for Increased Ongoing Administrative Fee Revenues within Existing Resources

1) Augment Direct Appropriations for Administrative Fees with Existing Appropriated Funds.

Permit PHAs to draw administrative fees at the pre-QHWRA rate under Section 8(q) for each family that leases successfully from Net Restricted HAP Assets (NRA) to the extent amounts are available from December 31, 2010 and prior years as stipulated under a provision applicable to P.L. 111-383 which states:

...Provided further, That if the amounts made available under this paragraph are insufficient to pay the amounts determined under the previous proviso, the Secretary may decrease the amounts allocated to agencies by a uniform percentage applicable to all agencies receiving funding under this paragraph or may, to the extent necessary to provide full payment of amounts determined under the previous proviso, utilize unobligated balances, including recaptures and carryovers, remaining from funds appropriated to the Department of Housing and Urban Development under this heading, for fiscal year 2009 and prior fiscal years, notwithstanding the purposes for which such amounts were appropriated: Provided further, That amounts provided under this paragraph shall be only for activities related to the provision of tenant-based rental assistance authorized under section 8, including related development activities;...

Exercising the above administrative fee provision in the Act that enables HUD to allow PHAs to use their unobligated NRA funds from prior years to increase ongoing administrative fee provisions would help the HCV program sustain the number of families served last year and facilitate the Department accomplishing its FY 2010-FY 2015 Strategic Plan goals.

2) Immediate Measures to Alleviate Financial and Administrative Strains Relating to HUD's Existing Portability System (24 CFR § 982.353).

We appreciate the Department's initiative on portability reform in March 2010, as well as your involvement of PHAs and PHA industry groups' ideas on this important program area. On July 27, 2010, NAHRO submitted to HUD PIH our extensive reform recommendations relating to the portability feature of the HCV program. Among other things, NAHRO recommended regulatory and administrative reforms would reduce billing and administrative costs between PHAs. Accelerating the rulemaking process in this area while taking the following measures would be most appreciated by NAHRO and our PHA members.

Among other problems, ongoing administrative fees for portable vouchers are based on 80 percent of the "Column B" rate for the receiving PHA, and 20 percent of the "Column B" rate

for initial PHA, prior to the national pro-ration percent being applied. "Column B" fee rates provide less financial compensation to PHAs than "Column A." The "Column B" fee rate is 7.0 of the base two-bedroom FMR from 1993/1994, and the "Column A" rate is 7.5 percent of the base two-bedroom FMR from 1993/1994. As a result, both initial and receiving PHAs of all types (i.e. city, county, multi-county and state) administering vouchers through portability billings, experience higher administrative costs than usual but receive substantially less fees. For PHAs with portability billings, NAHRO recommends as a temporary and partial fix that HUD use an 80% vs. 20% split of the "Column A" administrative fee rate to more adequately compensate these agencies. Within the context of a comprehensive portability policy that balances the interests of all PHAs including initial and receiving PHAs, NAHRO believes it is imperative for the Department to move forward in an expeditious fashion so that the 80% vs. 20% split of ongoing administrative fees between agencies receiving 78.5 annual pro-ration is completely remedied immediately.

3) Reconciliation of PHAs' Net Restricted HAP Assets, Unrestricted Net Assets and Cash/Investments.

NAHRO recommends HUD correct its error in its wholesale use of PIC data in 2009, by reassessing PHAs' Net Restricted HAP Assets (NRA), Unrestricted Net Assets (UNA) and Cash/Investments, using VMS data for voucher leasing and costs. It is our understanding that earlier this year HUD has completed these reconciliations for all but a few hundred PHAs and plans to complete this process for the remaining PHAs administering Section 8 tenant-based voucher programs in the near future. Our recommendation has several elements:

- **Reconcile PHAs' Net Restricted HAP Asset amounts.** Many PHAs have significant NRA discrepancies compared with the amounts identified for them by HUD in previous years. HUD's assessment of some PHAs' NRA is significantly higher than actually exists. This had the effect of compounding the impact of distributional shortfalls to many PHAs around the country, by overstating a primary source of funding - NRA - necessary to deal with them. In 2009, HUD and Congress took extraordinary actions to help remedy funding shortfalls for PHAs facing terminating families, which took place in large measure due to HUD's wholesale use of PIC data rather than VMS data for "mid-month" leasing. There are other PHAs that experienced funding shortfalls due to the same HUD error, who could not lease turnover vouchers and ended up serving fewer families and had no financial remedy. As a result of HUD's error, PHAs were forced to lease fewer families than they could have otherwise served. NAHRO recommends HUD recalculate PHAs' proper Net Restricted HAP Assets (NRA) using VMS data and reimburse these PHAs for amounts owed, while continuing to satisfy the \$750 million rescission (offset) target mandated in the FY 2009 appropriations act. Without any new appropriations and entirely within the existing amounts of NRA nationwide, NAHRO recommends HUD recalculate PHAs' proper NRA using VMS data and in accordance with PIH Notice 2009-13. Instead, it appears that HUD's FY 2012 budget plans to cement its inaccurate assessment and offset of PHAs' NRA, by "busting the caps" in PHAs' Annual Contribution Contracts (ACCs) and allowing the "haves" to serve greater

numbers of families than their ACC voucher level and the “have-nots” to serve fewer families than their ACC voucher level.

- **Reconcile PHAs' Unrestricted Net Asset amounts.** Many PHAs have significant UNA discrepancies compared with the amounts identified for them by HUD in previous years. NAHRO recommends HUD recalculate PHAs' UNA properly.
 - **Reconcile PHAs' Cash/Investments.** Many PHAs have significant discrepancies in their Cash/Investments compared with the amounts identified for them by HUD in previous years. NAHRO recommends HUD recalculate PHAs' Cash/Investments properly.
 - **Recalculate PHAs' voucher lease-up and budget utilization rates using VMS data, to make sure that they are in the correct utilization groups.** Based on HUD's wholesale use of PIC data for PHAs' “mid-month” leasing rather than VMS data, some PHAs' voucher leasing and budget utilization rates should be reclassified as provided in HUD Notice 2009-13. If completed, this would affect the calculation of PHAs' NRA offsets.
- 4) Improve Methodology for Determining PHAs' Eligibility for Higher Administrative Fee Rates [(24 CFR § 982.152(b)(3)).**

In making its existing determinations, HUD uses PHAs' administrative fee expenses relative to a theoretical administrative fee earnings rate at a 100 pro-ration percent rather than compared with the actual pro-ration for that given year. As a result, PHAs' who would otherwise qualify under the exception fee regulation [(24 CFR § 982.152(b)(3))] are deemed ineligible by HUD. NAHRO recommends that the Department review eligible PHAs' applications for exception fee rates by comparing their administrative fee expenses with the actual pro-rated fees for that given year.

- 5) Allow PHAs to implement reduced Voucher Payment Standards in a more timely fashion (24 CFR § 982.502).**

PHAs only earn ongoing administrative fees for each voucher-assisted family under lease. Significant numbers of Public Housing Agencies' (PHAs) around the country have insufficient HAP funds to lease up to their adjusted baseline number of authorized vouchers. In addition, PHAs had significant amounts of their Net Restricted HAP Assets (NRA) offset from them and utilized significant amounts of their Net Restricted HAP Assets in 2009. Currently, there is nothing on the horizon to replenish some or all of their Net Restricted HAP Assets. This undermines affected PHAs' ability to maximize their ongoing administrative fee earnings and particularly with ongoing administrative fee pro-rations at 78.5 percent in 2011. This will seriously undermine HCV program compliance and imposes serious constraints on their abilities to serve families and property owners.

NAHRO believes that the intent of HUD requiring PHAs under existing regulation, to implement a lowered payment standard at a household's second re-examination of household members and income, was to allow for a two year transition from the merger date of October 1, 1999 of the

merger rule (RIN 2577-AB91) governing the consolidation of the Section 8 Certificate and current Section 8 Voucher programs (24 CFR § 248 et al.). However, since the transition to complete the merger of both programs ended by October 1, 2001, this practice of waiting until the second household reexamination remains in place at a significant expense to the HCV program and fewer eligible low-income families being served.

To help provide some measure of financial relief to these PHAs within existing appropriated funds, would be Congress requiring HUD to exercise its existing regulatory authority (24 CFR § 982.502). NAHRO recommends Congress direct HUD to reduce the current time frames required of Public Housing Agencies' (PHAs) to implement reduced voucher payment standards (CFR 982.505) from households' second reexamination to the greater of 90-days from the date the household is notified or a household's lease anniversary date.

HUD exercised its authority with the issuance of PIH 2005-9 and through subsequent actions, but PHAs looking to implement shorter time frames for their lowered payment standards have been required by the Department to go through what many believe should be an unnecessary burdensome waiver process. Furthermore, in order for PHAs to have their waiver requests approved in 2005 and beyond, HUD has required them agencies to not re-issue turnover vouchers to eligible applicants or lease them up under the program. HUD's existing policy creates hardships for agencies that needed waiver approval for shortened time-frames for their payment standard reductions, in order to serve the same number of existing families or to restore their leasing to previous levels or their adjusted ACC baseline number of vouchers.

When there are housing markets which are cooling and so long as a PHA's regulatory "affordability standard" is met [24 CFR §982.102(e)(3)(iii)], taking the above measure would provide opportunities to remedy their agencies' funding shortfalls within the existing HAP amounts provided, but while not imposing hardships on low-income families and participating property owners. This measure could help some PHAs mitigate the effects of downward prorated administrative fees, if they are able to better utilize their available HAP and NRA resources to increase the number of families they lease, up to their adjusted baseline number of vouchers.

6) Reinstate opportunity for temporary and partial transfer of HAP budget authority and vouchers between PHAs (PIH Notice 2002-14).

Previously PHAs that had more HAP funding than could serve 100 percent of their authorized vouchers, worked with under-funded PHAs in their surrounding communities (within the same metropolitan area, non-metropolitan county, or state) to voluntarily transfer a portion of their HAP budget authority and vouchers (PIH Notice 2002-14). This process which required PHAs' notification to HUD, enabled greater number of low-income families to be served and also facilitated a prompt method for some communities dealing with a tight housing market to receive the necessary funding to deal with temporary spikes in their HAP costs. HUD's previous notice enabled PHAs to transfer the same amount of HAP budget authority back to the original PHAs such that all agencies retained their total number of authorized vouchers. However, in March 7, 2007, HUD issued a notice (PIH 2007-6) rescinding PHAs authority for partial transfer of HAP budget authority and instead only allowed PHAs divest their entire voucher program to another

PHA or no HAP funding at all. Under HUD's 2007 notice, all such voluntary voucher program divestitures are permanent, which for all intents and purposes, precluded PHAs helping their under-funded neighboring agencies and the families they serve. NAHRO recommends reinstatement of PIH Notice 2002-14 either through reinstating authority to PHAs or providing similar authority to HUD Field and/or Regional Offices. This measure would have the benefit of maximize available HAP resources to serve the maximum number of families while also potentially enabling a greater percentage of PHAs to utilize a portion of their Net Restricted HAP Assets if available to augment their ongoing administrative fee pro-rations under our first recommendation above.

7) Improve On "Hold Back" Percentage at the End of the Year.

During the calendar year, HUD advanced ongoing administrative fees to PHAs based on their prior leased vouchers, with reconciliations to be completed on a rolling basis retroactive to the beginning of each year. HUD informed PHAs that they needed to ensure that the total appropriated funds for ongoing administrative fees are distributed for each calendar year's leasing without any over-funding or under-funding. What we now know, based on the last three calendar years of experience, is that HUD's percentage "hold back" at the end of each year has been unnecessarily excessive. The ongoing administrative fee amounts PHAs were left with during these "hold back" periods have been well above the amounts in their ultimate calendar year pro-rations. NAHRO recommends that the Department gauge a more appropriate "hold back" for December 2011 and beyond that is much closer to where the final calendar year pro-ratio is likely to be. PHAs welcome HUD's final reconciliation of their December 2010 ongoing administrative fee pro-rations to help them cope with their 2011 cuts in fee revenues. In addition, the severity of HUD's administrative fee withholding in 2011 and beyond could be mitigated in a number of ways.

First, HUD should pay ongoing administrative fees for no more than 100 percent of each PHA's authorized vouchers during the course of the year. Currently, HUD pays for monthly over-leasing throughout the year until final reconciliation for December.

Second, NAHRO's above recommendation regarding allowing PHAs to book in VMS income that is not counted until cash (or a check) is actually received and Housing Assistance Payment (HAP) expenses are not counted until they are actually paid, will reduce retroactive posting of Unit Months Leased (UMLs) by PHAs for considerable periods of time as is now the case. As a result, HUD will be able to reconcile PHAs' calendar year ongoing administrative fee pro-rations in a more timely fashion.

Third, NAHRO recommends that HUD assess PHAs' SEMAP leasing and budget utilization (Indicator 13) on a calendar-year basis rather than a PHA fiscal-year basis and communicate this explicit change to PHAs in writing. This has been under consideration at the Department for a very long time. PIH Notice 2005-1 stated, "HUD will issue further guidance relating to the Year-End Settlement Statements which, subsequent to the last quarter in the calendar year 2005, will be based on calendar years rather than a PHA's fiscal year end." Because this procedure has not been implemented for calendar years 2006-2009, agencies have been in the unenviable position of having to maximize the use of their funding to lease vouchers through the end of their fiscal years and then

adjusting as necessary for the calendar year. Agencies faced with leasing within their baseline by PHA fiscal year and then calendar year may, because they have an inadequate amount of time to make adjustments to deal with their funding shortfalls, dramatically ramp their leasing up or down beyond the rates they otherwise would if leasing and budget utilizing by calendar year only. Add in the factor of appropriations bills becoming law considerably after September 30 each year, and the need to alleviate PHAs from this unnecessary constraint becomes more compelling. The resulting benefits that would include more consistent rates of leasing during the calendar year for purposes of more reliable ongoing administrative fee pro-rations. NAHRO has also requested that the Department ensure that agencies are not penalized with lower SEMAP scores by basing scoring on the higher of their fiscal year or calendar year leasing and budget utilization, and similarly that the Department ensure that agencies are not penalized in their application scores for incremental vouchers.



**Attachment 3 - Balancing Improvements of HUD's Information Technology Systems
with Ongoing Administrative Fee Funding; Improving HUD's Regulatory Framework,
Organization and Oversight Approaches; and HUD's HCV Administrative Fee Study**

**1) Transfer of Funds From Section 8 Account to HUD's Transformation Initiative for Next
Generation Voucher Management System (NGVMS) and the Working Capital Fund.**

HUD's five-year Transformation Initiative (TI) plan proposes to use these funds for three complementary purposes: 1) research, evaluation and program metrics; 2) program demonstrations; and 3) technical assistance and capacity building. Taking a total of \$173 million out of the Section 8 account for HUD's multi-year Next Generation Voucher Management System (NGVMS) and FHA IT systems projects, dwarfs the amount of money that came out of the Section 8 account in previous years for the Working Capital Fund. For example, the FY 2009 Omnibus Appropriations Act provided not more than \$7.9 million from the Section 8 account for the Working Capital Fund. In FY 2010, HUD received over twelve and a half year's worth of the typical annual funding formerly provided to the Working Capital Fund. HUD's FY 2012 budget requests a \$96 million transfer from the Section 8 Tenant-Based account for NGVMS as well as additional funding of \$243 million from the Working Capital Fund for the development, operation and maintenance of information technology (IT) systems that support Departmental programs and operations, core financial and general operations.

While we acknowledge the need to improve HUD's IT systems, arriving at a balanced approach in funding such improvements and funding the delivery of the Section 8 program to participants throughout the country seems in order. We believe allowing more funds to remain in the Section 8 account in FY 2011 to help improve Housing Assistance Payment funding and ongoing administrative fee pro-rations will help accomplish this equally important goal. This is not the time to divert scarce resources from the critically important function that PHA staff's delivery of services to low-income families.

With that being stated, NAHRO and our PHA members have provided extensive comments to HUD's team regarding recommended improvements under the NGVMS project. As part of HUD's overarching Transformation Initiative and NGVMS project, as we understand it the HUD team is looking at VMS as well as all of the related information systems that it should interact/interface with programmatically, including PIC, FDS, FASS, EIV as well as HUD's program evaluation assessment systems like SEMAP, voucher optimization tool, remote PHA risk-assessment system, etc. We also understand that HUD is interested in learning about the "human interface" with VMS and other HUD IT systems in a comprehensive way so that the Department examines programmatic guidance to its PHA partners for more accurate and uniform data submissions. Among NAHRO's recommendations submitted to HUD PIH on March 7, 2011 include but are not limited to: 1) improve PIC to the point

of full functionality and modify it so that it can be used as the basis for PHAs' financial disbursements like HUD's integrated Multi-Family Access Exchange (iMAX) in Section 8 Project-Based Multi-family Rental Assistance programs; 2) improve the data used in PIC and VMS so that PHAs get 100 percent reimbursement and in a timely fashion for their net HAP deficit expenses resulting from the portability feature of the HCV program. Reimbursement for PHAs' net portability HAP deficit expense is the only item in all of HUD's HAP calculations for PHAs that are still based on PIC data rather than on VMS data; 3) correct itemized fields for each specific voucher program (i.e. HUD-VASH, FUP, 1-year Mainstream, etc.) so that accurate information such as NRA can be submitted to HUD and properly assessed by the Department; 4) use a check the box system to account for voucher programs administered by each PHA and block out inapplicable VMS fields to reduce the amount of time and errors associated with the current design; and 5) use one system (PIC or VMS) to capture vouchers issued rather than asking for this information in both systems and using inconsistent definitions; 6) we examined the actual and current HUD method as reflected in PHAs' current PIC Delinquency Reports. Currently, PHAs that want/need to fully capture the necessary information in order to reconcile their PIC and VMS reporting to HUD, have to use information systems that are auxiliary to HUD's Delinquency Report. In determining PIC reporting rates the denominator HUD is using the number of leased vouchers in PHAs' most recent month of VMS data submitted (i.e. November 30, 2010) the PIC data is from the most recent month submitted by the last Friday of that given month (i.e. December 31, 2010). NAHRO recommends HUD use the same time period for both PIC and VMS for HUD's evaluation of PHAs' PIC reporting rates; 7) the "Port Outs" field in the Delinquency Report has a host of problems that would best be fixed programmatically by HUD PIH through the rulemaking process. However, there is an inherent problem with initial PHAs that have portability billings with receiving agencies that are dependent on receiving agencies for their PIC reporting rates; 8) improve both the programming thresholds and the frequency of HUD Field Office staff interfacing with the "hard edit" review and validation process which was just made worse during the April 2011 release; and 9) PIC changes to assist Moving-to-Work agencies.

PIC in its current state is challenging and time consuming. PHAs need to submit household data through HUD's PIC system. PHAs understand the concept and the Federal Government's need for at least some of this information. Unfortunately, the PIC system frequently will not accept data without reporting it as a fatal error, particularly when PHAs submit historical adjustments. PHAs are without appropriately equipped HUD staff resources to resolve PIC problems which impact the accuracy of PIC data, and are time consuming and costly for PHA and HUD staff in the administration of the program. During a recent meeting with HUD Regional and HQ staff PHAs were advised that there is a backlog of over 250 work orders to implement corrective actions to PIC software that have not been addressed to date. HUD's Regional Office personnel are great for PHAs to work with. They act as reasonable partners in the administration of the Section 8 voucher programs. Unfortunately, Regional Offices are powerless to address financial issues stemming from PIC and VMS-related problems that PHAs encounter.

2) Correct methodology errors in calculating PHAs' PIC reporting rates.

In October 2007 and later again in September 2008, NAHRO raised specific questions with HUD about the Department's mathematical calculations in determining PHAs' PIC reporting rates with their corresponding VMS data from the same three-month time period under PIH Notice 2007-29.

To date, the summary explanation of HUD's methodology to determine PHAs' PIC reporting rates in this notice provide insufficient details and lack the level of transparency we believe is warranted. Unresolved problems with PIC and VMS beyond the control of PHAs, will have adverse implications for them including:

- a) lowering PHAs' Section Eight Management Assessment Program (SEMAP) scores below what they should be if HUD's IT systems and HUD PIH program staff evaluations were performed in accordance with HUD's governing regulations, notices and guidance;
- b) sanctioning PHAs' administrative fee earnings permanently for those with PIC reporting rates below 94.5 percent;
- c) sanctioning PHAs for Rental Integrity Monitoring (RIM) and Rental Housing Integrity Improvement Program (RHIIIP) findings; and
- e) eliminating 50th percentile Fair Market Rents (FMRs) for several non-Moving-to-Work (MtW) PHAs' metropolitan statistical areas around the country.

Given the wide range of impacts on PHAs resulting from their PIC reporting rates including financial sanctions and performance assessment status, NAHRO recommends publication of the Department's calculations in order to provide greater transparency. A detailed explanation of problems identified for HUD by NAHRO can be found on pages 10–21 our letter to HUD on August 8, 2008.

3) Correct PIC System to be Consistent with the Statute & Regulations Governing PHAs' Annual HQS Inspection Requirements (24 CFR 982.405(a)).

PHAs are required perform Housing Quality Standard (HQS) inspections of their voucher-assisted units "annually" defined as one inspection occurrence per calendar year.

HUD has made improvements to its Public and Indian Housing Information Center (PIC) over the years that allows for a broader range of "allowable" annual inspection dates entered into PIC. HUD's PIC system requires an annual inspection date to be imputed within two months before or after the date of each voucher-assisted household's previous annual inspection, rather than once annually as is required under the regulations. The current administrative requirement as it relates to PIC and PHA's Section Eight Management Assessment (SEMAP) scoring, rather than under the statute and regulations, creates a problem.

Traditionally, PHA's annual inspections coincide with each tenant's move-in date, which does not allow for meaningful flexibility to group HQS inspections geographically. Even with the improvement in PIC (described above) PHAs are not afforded the kind of flexibility and efficiencies enjoyed by Moving-to-Work agencies that should be available to non-MtW agencies within the existing statutory requirement that PHAs inspected voucher-assisted units annually. Improving the coding in PIC further to allow PHAs greater flexibility to cluster inspections geographically or by multi-family dwelling unit for example, would provide significant relief to PHAs with inspection

related travel expenses are significant, particularly with the price of gasoline and PHAs operating in expansive jurisdictions.

Under existing law and regulation, PHAs should be allowed to choose a time frame to conduct annual inspections that fit their local needs within existing statutory design including but not limited to: geographic area, multi-family development, lease anniversary, etc.

4) HUD Regulatory Framework and Reconsideration of Its Organization and Oversight Approaches.

Many PHAs feel stifled by the administrative burden of the public housing and HCV programs – the unnecessarily complex nature of HUD-required procedures has created a situation where PHAs do not have autonomy over program administration and could adapt these programs to fit local needs. Many PHA officials find the existing regulations to be redundant, unresponsive to local housing markets, and inconsistent with local needs.

The Department of Housing and Urban Development has, justly or unjustly, been roundly criticized in recent years for an overemphasis on process compliance at the expense measuring performance and in general for failing to carry out its mission effectively. Bodies such as the National Academy of Public Administration and the Millennial Housing Commission have offered criticisms and recommendations, some of which have been acted upon, but many of which have not.

HUD PD&R has completed two surveys on the level of satisfaction with HUD and its programs by members of approximately eight HUD partner groups, which were surveyed in 2001 and 2006. Listed below is HUD’s summary of PHAs’ responses from the 2006 publication.

HUD PD&R’s “Partner Satisfaction with HUD’s Performance - Public Housing Agency Partners” (March 2006)

Performance Category	Percent of PHA Directors Dissatisfied in 2005
HUD programs	32%
How HUD runs programs	46%
Overall satisfaction	35%
Quality of information	26%
Timeliness of information	40%
Timeliness of decision making	47%
Quality of guidance	32%
Consistency of guidance	40%
Clarity of rules and requirements	57%
Competence of people at HUD	22%
Employees’ knowledge, skills and ability	27%
Ability to reach people at HUD	26%

Time commitment to comply with reporting	56%
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A new partner survey by PD&R that includes most of the same partner groups will provide statistically useful estimates of current satisfaction levels and estimate changes in satisfaction levels since 2006. The report's scheduled completion date is May 2011. We are anxious to see the results of this survey once published and look forward to talking with you about what was learned and the Department's possible "next steps" in light of the Department's FY 2010 – FY 2015 Strategic Plan goals including "Transform the Way HUD Does Business."

At a time when affordable housing needs and the attendant financial demands on the federal government are increasing, it is more important than ever that HUD function effectively and that it maximize the use of its resources. NAHRO believes that a comprehensive reexamination of the Department's organizational structure and its oversight approaches is appropriate for the new Administration – top to bottom. This reexamination should not be limited to administrative measures that assume no change in HUD's authorizing legislation, and it should be conducted with as much transparency and public input as possible. Attention to structural reorganization should be accompanied by a consideration whether the administrative and regulatory "culture" at the Department, which varies significantly within the organization as a whole, advances or hinders HUD in achieving its mission and what, if anything, should be done about it.

NAHRO is not among those who suggest the abolition of the Department as a cabinet-level department. We do suggest that:

- The above mentioned reconsideration of the Department's organizational structure and oversight culture should be undertaken as soon as possible.
- Attention should be paid to minimizing regulatory and administrative impositions and harmonizing regulatory regimes applicable to similar activities. Performance measurements relating to the management and operation of real estate should to the extent possible be separated from evaluations of programmatic regulatory or administrative process compliance. Regulatory reform should be an on-going process at HUD, which involves periodic consideration of the aggregate oversight demands made upon PHAs and other entities. The Department should consider basing the quantum of regulatory impositions on risk. Smaller PHAs pose less risk (financial, otherwise) to the federal government and should therefore face a simpler regulatory scheme.
- HUD should make a renewed commitment to the concept of partnership with regulated entities such as PHAs, which carry out the HUD programs. This potentially involves many things, but included among them would be a more robust and genuine involvement of regulated parties and greater transparency in the process of developing guidance, regulation, and legislative proposals.
- The Department should consider it an obligation to seek the financial resources necessary for PHAs and other regulated entities to carry out its programs. If those resources cannot be

obtained appropriate adjustments in the obligations of regulated entities should be made. In other words, we ask that the department seek to achieve a rough proportionality between the obligations imposed upon regulated parties and the resources supplied to meet those obligations.

- Improve monitoring and oversight of housing agencies with demonstrated program performance where they are truly at-risk of going into “troubled” status. The administration of the Section 8 voucher program is already reviewed through Rental Housing Integrity Improvement Program (RHIP)/Rental Integrity Monitoring (RIM) on-site reviews, SEMAP confirmatory on-site reviews, independent audits, and checks by HUD’s Financial Management Center, and MTCS. All of these reviews require additional PHA staff time in what is already a staff intensive program operating with continuing reductions in administrative fee support.

The Department has internal risk-assessment databases to use when targeting on-site audits, yet PHAs which administer 80 percent of all vouchers nationwide that have received multiple HUD audits over the last several years have been subject to HUD’s additional “consolidated reviews.” HUD’s “consolidated reviews” have taken place with PHAs without their ever having received the results of previous on-site HUD reviews so that any previous problems identified could be corrected if necessary. Greater measures are needed, to make sure that PHAs are not subject to a multiplicity of on-site visits for duplicative purposes. The description of the audits is unacceptably vague. To date, no protocol or transparent set of standards for those audits have been provided.

While we acknowledge that the Department has the right (and obligation) to conduct reasonable oversight activities, as well as a mandate to ensure that its data systems contain accurate data, we believe that it also has the obligation to conduct those activities in an efficient manner that avoids redundancy and causes the least disruption of PHA activities. Its obligation in this respect is all the more acute at a time when there are fewer resources available to serve Section 8 families.

5) HUD’s HCV Program Administrative Fee Study.

During several meetings, HUD officials said that cuts in Section 8 tenant-based voucher programs’ ongoing administrative fees would have an impact on PHAs and that the Department’s HCV program administrative fee study would have to be reconsidered accordingly. It is our understanding that HUD PD&R is currently in the reconnaissance and beta-test site phase of the study. NAHRO welcomes the opportunity to discuss the impact of CY 2011 ongoing administrative fee pro-rations on HUD’s HCV program administrative fee study.



Attachment 4 - HUD Statutory Waiver Authority

In addition to our regulatory and administrative recommendations, listed below is NAHRO's newly recommended legislative language giving the HUD Secretary the authority to waive three specific Section 8 tenant-based voucher statutory requirements regarding: 1) annual Housing Quality Standard inspections; 2) annual household recertifications and 3) rent reasonableness determinations as the Department determines is necessary to reduce administrative requirements when ongoing administrative fees are pro-rated below 90 percent. We are providing this language to you in the hope that the Department will seek quick enactment through the identification of a viable legislative vehicle.

SEC. ____ Notwithstanding any other provision of law, if the Secretary of Housing and Urban Development determines that the amount of funding available to public housing agencies for costs and expenses of administering tenant-based rental assistance under Section 8 of the United States Housing Act of 1937 (the "Act") during the calendar year 2011 will be less than 90 percent of the amount provided in section 8(q) of the Act as it existed immediately prior to the enactment of the Quality Housing and Work Responsibility Act of 1998 (P.L. 105-276, October 21, 1998), then the Secretary may issue blanket waivers, effective immediately, to all public housing agencies administering such rental assistance relating to any one or more of the following requirements:

- (a) Annual reviews of family income pursuant to subsection 8(o)(5) of the United States Housing Act of 1937;*
- (b) Annual inspections of units pursuant to subsection 8(o)(8)(D) of the United States Housing Act of 1937; and*
- (c) Rent reasonableness calculations pursuant to subsection 8(o)(10)(A) of the United States Housing Act of 1937.*

Waivers issued pursuant to this section shall be subject to such conditions and effective for such duration as the Secretary shall determine.

LETTER FROM THE PRESERVATION WORKING GROUP**PRESERVATION WORKING GROUP**

July 31, 2012

Chairman Robert Menendez
Ranking Member Jim DeMint
Senate Banking Committee
Subcommittee on Housing,
Transportation and Community Development
534 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Menendez and Ranking Member DeMint,

Thank you for holding this important hearing titled, "Streamlining and Strengthening HUD's Rental Assistance Programs." The Preservation Working Group strongly supports changes to HUD's rental assistance programs that will make them more efficient and effective for housing operators, developers and tenants. We respectfully request that you include this letter in the hearing record.

The Preservation Working Group is a coalition of non-profit housing developers, owners, state and local housing agencies and tenants dedicated to the preservation of existing federally assisted affordable housing. We are supportive of changes that will reduce costs to both HUD and housing operators, but also help create and preserve the availability of affordable housing to low-income households.

The House Subcommittee on Insurance, Housing and Community Opportunity has marked up the Affordable Housing and Self Sufficiency Improvement Act (AHSSA), that includes many provisions that we support, including modifications to the project-based voucher program, streamlining the Family Self Sufficiency Program and providing long-term rental assistance contracts to properties with no option to renew existing contracts. In addition, the bill streamlines unit inspections and simplifies rent and income calculations which are common sense changes that will reduce duplicative administrative burdens and save critical staff time for housing providers.

The changes that AHSSA makes to the Project-Based Voucher (PBV) program will give Public Housing Authorities (PHAs) more flexibility to serve at-risk populations, serve more low-income families in rural communities and provide more affordable housing options in high-cost areas. The PBV program, like the project-based Section 8 program, enables owners to leverage the long-term contract to rehabilitate existing properties or create mixed-income housing. This program has been recognized both by HUD and Congress as an important preservation tool that supports income-mixing development and connects tenants to supportive services. AHSSA's changes to the PBV program further these two

PRESERVATION WORKING GROUP

goals. We also encourage the Committee to consider making two additional changes to the PBV program to help PHAs preserve existing housing and prevent displacement of low-income tenants.

- **Exempt public housing revitalization from counting against the PHA project-base voucher cap.** Currently, PHAs are limited to project-basing 20% of their voucher funds. Unfortunately, this limitation makes it more difficult for a PHA to revitalize public housing developments in much need of capital repair that are not suitable for participation in HUD's Rental Assistance Demonstration (RAD) program. Making this limited exception will provide a critical additional tool to PHAs who need it by giving them greater flexibility to manage their voucher programs in a way that leverages private capital to make overdue capital repairs.
- **Enable the project-basing of tenant protection vouchers.** Tenant protection vouchers (TPVs) are issued by HUD to tenants in properties where owners opt out of rental assistance contracts, the use or affordability restrictions expire or the rental assistance contract ends. Currently, HUD has limited authority to project-base TPVs for a subset of properties. Expanding this authority to all units that will receive TPVs helps maintain affordability for low-income households, prevents tenant displacement and supports recapitalization of the property.

These two no-cost changes will support the preservation of community assets and protect the significant investment the federal government has already made in these properties.

We applaud this Subcommittee for holding this hearing. We look forward to working with you and your House counterparts to move these important reforms forward.

Sincerely,

California Housing Partnership
 Emily Achtenberg, Housing Policy and Development Consultant
 Enterprise Community Partners
 LeadingAge
 Local Initiatives Support Corporation
 MTM Consulting LLC, Affordable Housing Finance and Preservation
 National Housing Law Project
 National Housing Trust
 National Low Income Housing Coalition
 Network for Oregon Affordable Housing
 Preservation of Affordable Housing, Inc
 Mercy Housing, Inc.
 Stewards of Affordable Housing for the Future

LETTER TO THE SENATE BANKING COMMITTEE REGARDING SECTION 8 VOUCHER REFORM

July 30, 2012

The Honorable Robert Menendez
Chair
Senate Banking, Housing and Urban Affairs Committee
Subcommittee on Housing, Transportation, and Community Development
Washington, DC 20151

The Honorable Jim DeMint
Ranking Member
Senate Banking, Housing and Urban Affairs Committee
Subcommittee on Housing, Transportation, and Community Development
Washington, DC 20151

Dear Chairman Menendez and Ranking Member DeMint:

The real estate industry is pleased that you are holding a hearing to address Section 8 voucher reform. Our industry believes it is imperative for Congress to pass legislation that will improve the voucher program for both residents and owners alike: saving taxpayer dollars and eliminating inefficiencies are a must. We support the concepts contained in the Discussion Draft of the Affordable Housing and Self-Sufficiency Improvement Act of 2012 (AHSSIA) approved by the House Financial Services Housing Subcommittee earlier this year.

Our organizations represent owners, management companies, lenders, builders and developers and housing agencies. We have long supported the Section 8 Housing Choice Voucher program, which provides rental subsidies to approximately two million very-low income households who obtain housing in the private rental market. The program, which is intended to broaden the range of housing choices for families seeking affordable housing, has proven to be effective in helping low income families find decent, safe and affordable housing. In addition, the rental vouchers can be leveraged to build new or rehabilitate existing affordable housing, a necessity in today's tight rental markets.

However, in spite of its overall success, the voucher program suffers under the weight of too many inefficient and duplicative requirements. The myriad overlapping and redundant procedures have made the program difficult to administer and deterred many professional landlords from participating in the program. As such, we have worked diligently with Congress for several years now to formulate common sense legislation to streamline the Housing Choice Voucher Program.

We support the AHSSIA bill because it reduces taxpayer costs within the Department of Housing and Urban Development's (HUD) rental housing programs and facilitates greater private sector participation in affordable housing. An important part of this effort for all the various participants involved is the streamlining of federal regulations. Streamlining the program will reduce administrative burdens and lower program costs, while increasing local flexibility. This in turn will mean that more owners will want to participate in delivering affordable housing to those who need it. Notably, the FY2013 HUD Budget requests many similar provisions to the House draft, which carry substantial savings. On April 28, 2012, HUD Secretary Donovan testified before the Senate Banking, Housing, and Urban Affairs Committee, and endorsed many of the reforms in the House Draft as "common sense."

We wish to highlight several provisions of particular significance that we support in the House bill and encourage the Senate to include these provisions in future proposals:

Streamlining the Property Inspection Process. First, AHSSIA allows housing authorities to perform unit inspections every other year rather than annually and eliminates the need for duplicative inspections, which currently occur when a property is financed with multiple government housing programs such as FHA mortgage insurance, Low Income Housing Tax Credits (LIHTCs), or HOME. Multiple inspection requirements increase operating costs to property owners and cause significant inconvenience to tenants and are not necessary to ensure good quality maintenance.

Second, the bill permits immediate tenant occupancy if the unit has been inspected within the past year and as long as there are no life-threatening conditions. This is important for both tenants and owners alike because it reduces the length of time a unit is vacant and allows tenants to move into the unit without delay.

Simplifying Rent and Income Calculations. This provision significantly reduces administrative burdens by allowing for the recertification of rent and income to occur every three years rather than annually for those on fixed incomes and allows determinations made for other federal means-tested programs to be used in the verification process. Importantly, these changes will apply to all rental assistance and other HUD assisted housing programs, not just the voucher program.

Reducing Costly Limited English Proficiency (LEP) Translation Burden. Current HUD Guidelines require the translation of all "vital" documents into multiple languages. AHSSIA would ensure that HUD is responsible for such translations rather than private owners/managers and PHAs, thus eliminating the burden for owners and centralizing the translation process. The provisions in the bill ensure that persons with limited English proficiency will have access to accurate documents and that the provision of these documents and services is cost-effective.

Extending the Contract Term for Project-based Vouchers from 15 to 20 Years. These provisions will help facilitate the use of project-based vouchers in LIHTC properties. The rental subsidies provided by vouchers help LIHTC owners meet the need to serve extremely low-income households. The bill also provides other logistical changes to the programs that will advance housing opportunities and ease transactional barriers.

We applaud the Senate for holding this hearing. We look forward to continuing to work together as efforts to address this issue move forward.

Sincerely,

Council for Affordable and Rural Housing
 Institute of Real Estate Management
 Institute for Affordable Housing Preservation
 LeadingAge
 National Affordable Housing Management Association
 National Apartment Association
 National Association of Affordable Housing Lenders
 National Association of Home Builders
 National Association of Housing Cooperatives
 National Association of Realtors
 National Leased Housing Association
 National Multi Housing Council

cc: Senate Banking, Housing and Urban Affairs Committee

**STREAMLINING AND STRENGTHENING HUD'S
RENTAL HOUSING ASSISTANCE PRO-
GRAMS—PART II**

TUESDAY, DECEMBER 11, 2012

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10:31 a.m., in room SD-538, Dirksen Senate Office Building, Hon. Tim Johnson, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN TIM JOHNSON

Chairman JOHNSON. I call this hearing to order.

I would like to welcome the Honorable Sandra Henriquez once again to the Committee for a hearing entitled “Proposals to Streamline and Strengthen HUD’s Rental Housing Assistance Programs, Part II.”

Millions of American families struggle every day to afford a roof over their heads. Currently, a person with a full-time job needs to earn about \$18.50 an hour in order to afford a modest, two-bedroom rental at the national average. This is an amount far above the minimum wage or the income provided by Supplemental Security Income.

Affordability is not just a problem in the largest cities in the country. The Sioux Falls Housing and Redevelopment Commission, for example, has 3,800 families—nearly twice the number the agency currently serves—on the waiting list for housing assistance.

HUD’s Section 8 Voucher and Public Housing rental assistance programs help over 3 million households, including low-income seniors, people with disabilities, and families with children, find safe, affordable housing. This assistance is funded by the Federal Government through HUD and delivered locally through a network of local and State public housing authorities, or PHAs.

Despite the vital role these programs play in our national safety net, they face a number of challenges. These include complex administrative procedures, aging buildings in need of revitalization, and Federal funding constraints that have local agencies struggling to do more with less. The strains on local agencies have become so difficult some PHAs have turned down HUD-VASH vouchers for homeless veterans—or even shut down completely—due to a lack of funding to administer the program.

Given these challenges and the Nation's fiscal position, it is essential that our Federal programs operate effectively and efficiently.

Earlier this year, Senator Menendez's Subcommittee held a hearing to gather stakeholders' recommendations for improving these programs. Many of these focused on commonsense ideas that have been considered in both House and Senate Section 8 voucher reform bills in recent years, such as streamlining housing inspection schedules, simplifying rent calculations, and improving PHAs' ability to provide new housing opportunities through the use of project-based vouchers. Some of these suggestions would also streamline processes in HUD's Section 8 project-based rental assistance programs.

We have invited Assistant Secretary Henriquez here to share the Administration's recommendations on this important topic. I look forward to learning where there may be consensus around commonsense reforms that will strengthen the Section 8 and public housing assistance programs for our families, local partners, and taxpayers.

Are there any other Members—

Senator REED. That is a good question.

[Laughter.]

Chairman JOHNSON. Jack, do you wish to make a brief opening statement?

Senator REED. Mr. Chairman, thank you again for holding this hearing. It is very important. Welcome, Madam Secretary, and I look forward to your testimony. Thank you.

Thank you, Mr. Chairman.

Chairman JOHNSON. Thank you all. And I want to remind my colleagues that the record will be open for the next 7 days for opening statements and any other materials they would like to submit.

Now I will briefly introduce our witness, the Honorable Sandra B. Henriquez, Assistant Secretary for Public and Indian Housing at the U.S. Department of Housing and Urban Development. In this capacity, she has day-to-day oversight of HUD's public housing and Section 8 voucher programs as well as HUD's Office of Native American Programs.

Assistant Secretary Henriquez, you may proceed with your testimony.

STATEMENT OF SANDRA B. HENRIQUEZ, ASSISTANT SECRETARY FOR PUBLIC AND INDIAN HOUSING, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Ms. HENRIQUEZ. Thank you and good morning. Chairman Johnson, Ranking Member Shelby, Mr. Reed, and Members of the Committee, I thank you for inviting me here today to testify this morning on opportunities for reform of the Housing Choice Voucher and public housing programs.

The voucher and public housing programs provide critically important housing assistance in communities across the Nation. These programs serve extremely poor families, many of whom are elderly or disabled. Not surprisingly, with the recent recession, the demand for rental assistance has increased.

HUD recognizes the urgent need to streamline and simplify its rental assistance programs in order to reduce the administrative burdens on public housing authorities and to increase overall efficiency, while also generating Federal cost savings where possible.

In light of the persistent demand for deeply affordable rental housing, we are also working hard to preserve public housing. My testimony today will cover three important approaches: streamlining and simplifying our programs, further reforming the public housing oversight structure to strengthen the portfolio, and increasing flexibility to respond to local housing needs.

There is broad, external consensus among policy experts and practitioners for a number of key reforms that will streamline and simplify HUD's rental assistance programs. In its fiscal year 2013 budget request, HUD put forward a number of reforms around which there is consensus, and these include consolidating the Voucher and Public Housing Family Self-Sufficiency programs and opening eligibility to multifamily residents; enacting a rental policy demonstration to test the effectiveness of different policies and encouraging family economic dependents and self-sufficiency, and authorizing biennial inspections for Housing Choice Voucher units to reduce administrative and financial burden. We are exploring further streamlining measures that require statutory authority and may be worth pursuing in fiscal year 2014.

Our commitment to streamlining and simplification extends to the future of public housing as well. We recognize the importance of aligning our oversight structure with basic property management principles. Small public housing authorities view our existing oversight structure—known as the “Public Housing Assessment System,” or PHAS—as increasingly unworkable. They assert that the program is heavy-handed, that small housing authorities pose little risk to HUD, and that HUD should, therefore, scale back its oversight of small agencies.

In response to these concerns, we have taken steps to adjust how public housing are scored under the system, and we are willing to change and consider other changes as well.

Broader reform that embraces traditional real estate management practices will bring substantial administrative relief to PHAS of all sizes, helping to put the public housing portfolio on a more solid foundation. Reform of HUD's oversight structure is the next step on the path established nearly a decade ago with the implementation of “asset management”—a system where accounting, budgeting, funding, and management are performed at the property level rather than the public housing level.

The Rental Assistance Demonstration, a top priority of this Administration, also known as RAD, addresses the contractual relationship between public housing authorities and HUD. It offers participating housing authorities the option to convert to long-term project-based Section 8 contracts which will enable them to leverage private investment on terms similar to those available to private property owners participating in HUD's multifamily programs. We expect that RAD will help to reverse the loss of public housing units and to preserve the portfolio going forward.

The Moving to Work Program was authorized in 1996 as a demonstration as well to provide a limited number of housing authori-

ties with the statutory and regulatory flexibility to test practices that increase cost-effectiveness, reward employment and economic independence, and increase housing choices for low-income families. MTW has enabled housing authorities to pioneer innovative approaches to serving homeless families, building resident earnings and assets, achieving operating cost efficiencies, and leveraging private capital.

For example, Home Forward, formerly known as the Portland Housing Authority, in Portland, Oregon, used project-based vouchers to provide housing to formerly homeless veterans, and the building is served by a full-time resident services coordinator, and services are provided by the VA program. Flexibility allows Home Forward to provide security deposits to veterans using VA supportive housing vouchers as well.

The Department is pleased that some of our most important stakeholders from public housing authorities and low-income housing advocacy communities were able to negotiate through their differences over MTW in order to advance broader Section 8 reform. As the Committee crafts its legislation, we hope you will consider the stakeholder approach.

Mr. Chairman, there is an irrefutable need for rental assistance in communities across this Nation. At the same time, there is long-standing consensus on a set of reforms that will streamline and simplify administration of the Housing Choice Voucher and the public housing programs. HUD is committed to improving not only the administration of its programs, but its oversight of the public housing programs as well, and we look forward to working with the Committee and our industry partners to develop a property-based oversight structure.

We also recognize that any expansion of the MTW program must be coupled with measures to protect tenants, assure adequate HUD oversight, and evaluate results.

I look forward to your questions. Thank you.

Chairman JOHNSON. Thank you for your testimony.

As we begin the questions, I will ask the clerk to put 5 minutes on the clock for each Member.

As I mentioned earlier, PHAs in my State and around the country are struggling to provide services to families given inadequate voucher administrative funding. How will the proposals we have been discussing here reduce the burdens on PHAs, particularly small agencies serving large areas, like those in South Dakota?

Ms. HENRIQUEZ. That is a good question, and thank you very much. Our proposals to streamline and administer also look at the options of forming consortia, having smaller agencies band together in order to have economies of scale in administering their programs. In addition, we think that there are streamlined opportunities around inspections, around rent certifications that could happen particularly for those families on fixed incomes, and that could happen on a less frequent basis because that income change is small and is known year after year.

We also believe that the inspection protocols could move from annual to biennial, particularly in housing authorities where there is a known tenant population with less wear and tear on those units, which indeed may free up housing authority staff, create effi-

ciencies, economies, and allow housing authorities to spread their precious resources further to serve the populations that are housed in those properties.

Chairman JOHNSON. PHAs in my State have also described their difficulties in keeping up with regulatory burdens and paperwork. For example, South Dakotans have mentioned that they are often asked to submit the same information multiple times. We must obviously find a balance between the need to provide appropriate oversight of taxpayer dollars with the needs of agencies, particularly small agencies who have limited staff and funding.

Are you examining administrative actions that HUD can take to reduce burdens on small PHAs?

Ms. HENRIQUEZ. Yes, we are examining particularly the reporting and regulatory burden on small PHAs, and indeed, we are trying a couple of things in a couple of different areas.

One, as I said earlier, we want to look at what we can do to streamline across the board.

Two, we are looking at our own data collection systems to make sure that we ask for it once, we do not ask for it in duplicative ways, and that when we ask for it, it is information that we are going to use, not information that we are not. So we want to make sure that our data collection is as tight as possible.

In addition, providing regulatory relief to small agencies in particular, there are some things that we think make totally good sense from a property management and a monitoring perspective. We want to take those not just for small agencies, but we want to take them to scale, because if they are good for small agencies doing real estate property management, then they are good for other, larger agencies to do that same work as well.

And there are other issues around regulatory streamlining that we would like to talk more with both the Committee and with small agencies about what they need to really run their business and balance that with what HUD needs for its own monitoring. We realize that we need to look at risk and assess risk, and generally small housing authorities, if you follow the money, small agencies are less riskier propositions than larger housing authorities to get the bulk of the HUD dollars. But we want to strike that balance and make sure that we are being as effective and efficient with all of our stakeholders.

Chairman JOHNSON. You have recommended increasing the medical deduction used in income and rent calculations from 3 to 10 percent of income. Previous versions of the Senate's SEVRA legislation and the AHSSIA bill under discussion in the House Financial Services Committee take a broader approach to simplifying income and rent calculations. These measures would streamline several deductions in HUD's complicated income calculations and replace them with higher standard deductions.

Do you support this broader approach to simplifying deductions?

Ms. HENRIQUEZ. Yes, we do support a broader approach to simplifying. We think that there will be less errors; it will be easier for residents to understand the changes; it will be easier for housing authorities' staff to actually compute and make less mistakes in those computations. We also think that there needs to be a balance between standard deductions and—both on standard deduc-

tions and pairing that with any changes in the medical deductions so there is a balanced program. This is truly not to harm or cause greater cost to be borne by the most economically vulnerable citizens that we house in our programs.

Chairman JOHNSON. Senator Reed.

Senator REED. Well, thank you very much, Mr. Chairman, and thank you, Madam Secretary. And as you know, one of the consistent themes here both from your Department and from the Chairman's questioning is lowering the dead weight costs, for want of a better term, on small public housing authorities. You are trying to do that.

One issue that has come recently to our attention is that the agency always has recognized that in the awarding of FSS grants this year, there were some errors.

Ms. HENRIQUEZ. Correct.

Senator REED. You are trying to correct those errors. We have a housing authority in North Providence that is in that process. And this is another sort of example of particularly smaller public housing authorities where, when they have to go back and redo the work, et cetera, it just adds to their administrative costs.

But could you give us sort of some insight as to what happened and what are you doing?

Ms. HENRIQUEZ. Yes, thank you for that question. I sometimes refer to it as "cosmic convergence." There were several things that went wrong, and they all went wrong at the same time, and, hence, we find ourselves having made a mistake in the award and the calculations for those awards for the Family Self-Sufficiency grants on the voucher side.

As it relates to small housing authorities, or any housing authority that applied under the NOFA earlier this year, we are not asking for a resubmission. We are going to reprocess starting at the point where HUD made its first mistake, and that was our data pull.

I want to be very clear. The NOFA, as written, made a point. It said: We will do a data pull from our data base that looks at the year-long number of families registered under the Family Self-Sufficiency program at any particular housing authority. We will post that data on a Web site, and the link is in the NOFA. So if you clicked on the NOFA electronically, it automatically took you to that posting.

In addition, we said please check the posting to see the numbers we have for your particular housing authority, and the NOFA said if you disagreed with that number, could you please then submit a supplemental or an ad hoc report to accompany your submission. And we used then that submission as the way to calculate the funding for those housing authorities that submitted the ad hoc report.

Even with that, our data pull was a point in time as opposed to an entire year, and so it didn't take into account—you might have had a thousand people at the beginning of the year, people graduated during the year, and you are replacing them, and so your number is lower at the point of time pull. That was mistake number one.

So what we are doing is we are asking—in fact, a letter went out Friday to all housing authorities that submitted about 750 of them that said we will be reprocessing, here is the information, this is the reposting, this is where you will find it, please, again, check the reposting, pull your own numbers, resubmit, and from that point forward we are going to then actually reprocess all of those applications and make the adjustments where people—some people got awards that should not have, some people got lower awards, some people got higher amounts than they were due.

When all is said and done, because it is a mistake of the Department, we do not want housing authorities and cascading down to residents who use the services of a self-sufficiency coordinators, we do not want folks to be harmed. And so for people who should not have been awarded money, we are going to make available extraordinary admin fees for them so they can continue, if they have already hired people and made employment commitments, that they will not be harmed and will be able to move forward and not have to take a loss and lay people off.

Senator REED. Thank you, Madam Secretary. Just let me make two points, because my time is winding down.

One, you in your proposal for essentially merging or consolidating both the FSS voucher program and the FSS program for public housing authorities, I think that is part of your design. That is reflective of legislation that I have submitted.

Ms. HENRIQUEZ. Yes.

Senator REED. And I think it makes sense.

The second point—and you alluded to it, too—is this notion of banding together, spreading overhead costs, it is something I think we should all explore. You know, I am sure there are communities in South Dakota and New Jersey and Rhode Island where there is one housing official trying to cope with all of this in a really difficult climate, and so to the extent that we can incentivize this sort of coming together, maybe not formally but through sort of joint services or joint overhead, that would be very, very good. So any advice you have for us going forward, we would appreciate that. But thank you, Mr. Chairman, and thank you, Madam Secretary.

Ms. HENRIQUEZ. Thank you, sir.

Chairman JOHNSON. Senator Crapo.

Senator CRAPO. Thank you very much, Mr. Chairman. First of all, I apologize. I am only going to be able to be here for just a couple of moments, but I did want to stop by and indicate to you, the Chair, as well as to our witness and to the other Members of the Committee that in these difficult budget times that we see and the understanding that I think we all have that funding issues are critical, I think it is important for us to focus on the kind of regulatory activity that the Department can bring and the focus it can bring to these housing issues. I think that the deregulation of Section 8 is very critical and important and strengthening, and I would hope in that process that the Moving to Work Program could get a strengthening and a renewed strong focus as we move forward.

But I just wanted to stop in and indicate my support for the process that is moving forward and encourage that we work closely together on it.

And, again, I apologize. I have been in four places this hour, and I have got another one to get to. So I apologize, and I am going to have to step right out.

Chairman JOHNSON. Madam Secretary, do you have any comments about these issues?

Ms. HENRIQUEZ. We just look forward to working with the Committee both in strengthening our regulatory oversight that is appropriate and balancing that with the needs of housing authorities to get their work done to serve the people who are housed in those programs. So thank you very much, sir.

Chairman JOHNSON. Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman, and thanks for calling this hearing. We had a hearing in the Subcommittee that laid a foundation, and I am pleased to see the Secretary here to build upon it.

Madam Secretary, we have been discussing reforms to Section 8 for some time now, and I think there is a tendency to forget how incredibly pressing the need for action really is. Affordable housing advocates and housing authorities back in New Jersey are telling me that these reforms cannot wait and that they are urgently needed now. So can you give the Committee a sense of the impact over time if Congress fails to act relatively soon, after such a long time of having this discussion, to implement specific reform provisions? What flows from that?

Ms. HENRIQUEZ. That is a really good question. Thank you, Senator.

I am taking a moment because I want to sort of get centered, because I think that there are lots of potential issues that will flow from this.

As you know already, administrative fees, which is the money that housing authorities get for leasing units under the Section 8 side, as those fees decrease, the workload does not. So what they have to do, the kinds of questions they have to ask, the kinds of documentation that is required on an annual basis does not decrease in spite of the fact that the funding to do that work has decreased, which has meant that housing authorities in some instances have had to lay people off. And that has led to longer waiting lists for people. Then people are on waiting lists longer, so they have lived in more difficult conditions longer.

It has also meant that as you have laid off people with decreasing funding, that housing authority employees themselves will find themselves in difficult straits as well.

The way in which we think about how that program gets managed gets more difficult. The less people but more workload or similar workload means potential for more error. Potential for more error means potential for wasted taxpayer dollars. And so we really do need to think about streamlining so that the work gets done, the people get house as quickly as possible, and the operations and the business processes for housing authorities are streamlined and efficient so that errors are minimized and maximizes the dollars, the precious resources we have.

Senator MENENDEZ. I appreciate that. How about housing authorities refusing to run their voucher programs and turning down

VASH vouchers to assist homeless veterans and the loss of hard units?

Ms. HENRIQUEZ. We have seen that in several instances, and, in fact, not just VASH vouchers, but we are seeing about a dozen housing authorities have decided that they are not going to operate a voucher program anymore, and they have made arrangements to convey that operation, to consolidate that operation with another larger housing authority.

It means that the folks who need the subsidy, the affordability, are not getting served. It means that the amount of work that it takes to do the job well is not able to be supported. And it means most of all that we will have homeless veterans and other families, homeless families, in emergent conditions, and that should not be tolerated.

Senator MENENDEZ. Let me just quickly—there are some core reform provisions that I would like to get your comment on. One is having a stable voucher renewal fund policy that would create predictability, because I am told it is very hard for housing authorities to plan for the year ahead when they do not know exactly what that will do; also to clarify how much money housing authorities can hold in reserves for a rainy day without those funds being taken back or offset; and also the flexibility provisions that are being—that have been discussed in project-based vouchers, enabling housing authorities to better assist families, especially elderly and disabled families, families transitioning out of homeless, to live in affordable housing communities of opportunity to receive services onsite.

How would that predictability, clarity in the funding side, and the flexibility translate into more families served, if it does translate into that?

Ms. HENRIQUEZ. Predictability is something that we would endorse wholeheartedly. It means that a housing authority can plan its business moving forward, it will understand its resources, and it can then tabulate its expenses and figure out how best to run its program.

I would say that that does not just benefit the housing authority and its employees; it benefits the residents who are participating in those programs on the voucher side. We have heard in the past issues around shortfalls or money not being—not having sufficient funds to make sure that everybody who needs to be housed or be renewed, have their voucher renewed, will be able to do that. And this will make sure that we do not have to have those discussions again. So tenants will be protected, and participants would be protected in that regard.

Further, I believe that a fixed formula funding, renewal funding, will mean that housing authorities are able to buildup small reserves. It right now is at about 3 weeks, and a 3-week reserve in a multi-billion-dollar program is really not a lot of money, particularly when you are running a voucher program which is tied to market real estate forces. And so while there are fair market rents and there are limits and so on, the natural tendency for a housing authority is to want to house as many people on its waiting lists as possible. That is why we are all in this business. Having that predictability will allow them to do that, particularly when it is

coupled with understanding what your reserve levels are and that will not be swept, and understanding that one of the things we keep asking for as well is the reallocation authority for the Secretary. So in some markets, it may be easier to lease, and you may have more room. And some housing authorities may not be able to lease as readily, and they will not use all of the money that has come to them. And so the ability to reallocate so we can continue to house and maximize housing across this Nation is something that we would look forward to as well.

Senator MENENDEZ. Mr. Chairman, thank you very much, and thank you, Madam Secretary, for your answers. I look forward to working with the Chair and his leadership hopefully in the next Congress to see if this is something that we within the housing context could prioritize, because I think there are two shared goals here: getting more people to have a place to call home and, second, saving taxpayers' money. So thank you very much.

Ms. HENRIQUEZ. Thank you.

Chairman JOHNSON. You support the idea of permitting PHAs to form consortia for purposes of forming partnerships to administer their public housing programs. Congress initially authorized the use of consortia in 1998, yet I understand barriers remain to PHAs' taking full advantage of this authority.

What is HUD doing to remove barriers to use of consortia and facilitate PHAs' participation in consortia if they determine it will meet their local needs?

Ms. HENRIQUEZ. There are several actions we are taking right now. First of all, consortia are allowed in voucher-administering agencies, but not on the public housing side, and so we are looking to extend the ability to have that happen in the public housing programs.

In addition, right now under a consortia housing authorities, let us say three or four housing authorities band together to get some economies of scale, to simplify their operations, but they still have to fill out three or four separate reports to HUD because they are still seen as three or four separate public housing entities. And so we are looking at ways—again, this is why streamlining and administrative flexibility is so important, because we are trying to figure out ways in which housing authorities could file one report, for example, that would cover their agencies. We would still ask each housing authority to file for its own tenants and its own participants into what we call our PIC data base, which is our personal information and every single household in the voucher program on the public housing side. We would ask that under Family Self-Sufficiency there is one report that is done that covers what the goals are early on in the program and then if they have met those goals at a year-end report. And so we are looking at all sorts of ways—in fact, we have been working with a number of housing authorities, all range of sizes across the country, asking them what information do they need to run their day-to-day business about which they make their business decisions, and then translating that into what about that information we could collect and use—since they are doing it already, that we could then use to monitor them as well so that we are not asking for different information or in a different format than they already collect it.

Chairman JOHNSON. You mentioned your support for the Rental Assistance Demonstration enacted in fiscal year 2012—or RAD—in your remarks. Can you update us on the status of this demonstration? Second, can you also comment on a draft House proposal to authorize funds for use in this conversion demonstration and how these funds might be used to preserve assisted housing?

Ms. HENRIQUEZ. Yes, thank you, sir. So the Rental Assistance Demonstration Program was authorized in fiscal year 2012. It is designed initially as a two-application period for public housing properties because we knew that there were housing authorities ready to submit and others who really wanted to spend some time thinking through their applications at a later date.

The initial application period ended October 24th, just several weeks ago. We got a number of applications. That is still being tabulated in terms of how many, but they range from small housing authorities to medium to large housing authorities who have put proposals together, and we can provide greater tabulation once those initial awards are made. And on an ongoing rolling basis, applications are coming in after the October 24th date. We will look at those after this initial cut has been reviewed.

As you know, the previous bill said that we could get up to 60,000 units in at no cost, and either using project-based contracts or project-based vouchers. In addition, in that 60,000 cap is also authorizing for multifamily programs, rent supplement, RAP—rental assistance payments—and Section 8 mod rehab.

So while we strongly support this program as a way to preserve public housing to get enough capital infused using private sector tools, financing tools, to get private money into the public arena to help rehabilitate and maintain these properties, we do know that there are a number of properties for whom this does not work because they have a larger capital need. And so we look forward to what we have seen in previous iterations on the House side, additional money going into that program which would help housing authorities with greater capital needs leverage greater amounts of private sector equity.

But what we are seeing, which is really helpful, is housing authorities using a variety of tools for mixed finance deals to make this happen. Again, it puts them on the same real estate platform as everything else in the real estate marketplace, using the equity from properties to leverage capital improvement dollars, to make sure that properties are maintained at current standards and will continue to improve and continue to be available to serve the people who live there now and for future generations who need the economic stability.

Chairman JOHNSON. I would like to thank you, Assistant Secretary Henriquez, for your testimony and for being here with us today.

This hearing is adjourned.

Ms. HENRIQUEZ. Thank you.

[Whereupon, at 11:09 a.m., the hearing was adjourned.]

[Prepared statements supplied for the record follow:]

PREPARED STATEMENT OF SANDRA B. HENRIQUEZ

ASSISTANT SECRETARY FOR PUBLIC AND INDIAN HOUSING, DEPARTMENT OF HOUSING
AND URBAN DEVELOPMENT

DECEMBER 11, 2012

Chairman Johnson, Ranking Member Shelby, and Members of the Committee, thank you for inviting me here today to testify regarding opportunities to reform the Housing Choice Voucher and public housing programs.

As you know, the voucher and public housing programs provide critically important housing assistance in communities across the Nation. These programs serve extremely poor families, many of whom are elderly or disabled, or both. While the median income of American families today is just above \$50,000, voucher and public housing families have substantially lower incomes.¹ Not surprisingly, with the recent recession, the demand for rental assistance has increased.

At the same time, we have been tightening our belts at the Federal level, and HUD recognizes the urgent need to streamline and simplify its rental assistance programs in order to reduce the administrative burdens on PHAs and increase overall efficiency. In our FY12 and FY13 budget requests, we included measures that reduce administrative burdens and increase efficiency, as well as generate Federal cost savings.

At the same time, and in light of the persistent need for deeply affordable rental housing, we are working hard to preserve public housing. For example, the Department's Rental Assistance Demonstration (RAD) is providing participating PHAs with new options for addressing the capital needs of properties, enabling them to leverage private investment on terms and conditions similar to those available to private property owners participating in HUD's multifamily programs. We expect that RAD will help to reverse the loss of public housing units and eventually place the inventory on a more sound, sensible regulatory footing for the long term. In the meantime, administrative streamlining is key to holding on to what we have. We also recognize that both preservation and administrative streamlining will be well served by continuing—and completing—HUD's transition to a project-based framework for public housing. HUD recognizes both the necessity and the wisdom of moving in the direction of an oversight model for public housing that is more closely aligned with the multifamily project-based Section 8 portfolio and with traditional asset and portfolio management principles.

Finally, the Department believes that PHAs should enjoy greater flexibility to respond to local housing needs, which in some cases means testing innovative strategies and engaging in partnerships tailored to local circumstances. The Department recognizes that greater flexibility must be coupled with measures to protect tenants, assure adequate HUD oversight, and evaluate results.

Streamline and Simplify

The Department is aware that there is broad external consensus among policy experts and practitioners for a number of key reforms that will streamline and simplify HUD's rental assistance programs. In its FY13 budget request, HUD put forward a number of reforms around which there is such a consensus. These reforms include:

1. *Revising the threshold for medical deductions.* The current threshold for the deduction of medical and related care expenses is 3 percent of family income. HUD proposes to increase the threshold to 10 percent of family income. This change would generate estimated savings of \$150 million in the first year of enactment (\$30 million in the voucher program, \$23 million in public housing, and \$98 million in project-based Section 8).

2. *Consolidating the Family Self-Sufficiency program.* Currently, there is a Family Self-Sufficiency (FSS) program for the voucher program and another for the public housing program. The programs are separate and administered independently. HUD proposes to consolidate the two programs and expand eligibility to project-based Section 8 owners, opening the program to multifamily tenants.

3. *Modifying the definition of extremely low-income.* In areas where median incomes are extremely low (e.g., rural areas), working poor families may be skipped over for rental assistance, even if their incomes put them below the poverty level. This is the case for the voucher program, especially, because 75 percent of new admissions each year must have incomes at or below 30 percent of the area median. HUD proposes to define an extremely low-income (ELI) family as a family whose income does

¹The average annual income of voucher program participants is approximately \$12,500; for public housing families, the figure is slightly more than \$13,500.

not exceed the higher of the Federal poverty level or 30 percent of the area median income. This provision will generate estimated savings of \$155 million (in the voucher program only) in the first year after enactment.

4. *Enacting a rent policy demonstration.* Currently, HUD can test and evaluate different rent-setting policies only at Moving to Work (MTW) agencies, since other agencies are not authorized to alter their rents beyond what is permitted in statute. HUD proposes to carry out a rent policy demonstration at any agency “for the purpose of determining the effectiveness of different rent policies in encouraging families to obtain employment, increase their incomes, and achieve economic self-sufficiency, while reducing administrative burdens and maintaining housing stability.”

5. *Establishing a flat rent floor.* PHAs are required to establish a flat rent “based on the rental value of the unit” and to offer public housing families the option of paying the flat rent or an income-based rent. In order to align public housing flat rents more closely with market rents, HUD proposes to establish a flat rent floor set at 80 percent of the applicable FMR. To assure that no family’s rent would increase by more than 35 percent in any one year, the increase would be phased in where applicable. Once fully implemented, this provision would reduce costs by approximately \$400 million.

6. *Changing the definition of a PHA to include a consortia of PHAs.* Currently, there is statutory authority for PHAs to form consortia for the purposes of administering the voucher program, but not for administering public housing. HUD proposes to amend the definition of a “public housing PHA” to include a “consortium of PHAs” so that PHAs will be able to reduce their administrative costs and achieve operating efficiencies by combining their operations, should they choose to do so.

7. *Authorizing biennial inspections for HCV units.* Currently, HCV units must be inspected on an annual basis, regardless of whether such units have a record of regular compliance with HUD’s physical condition standards. To reduce the administrative and financial burden on PHAs and high-performing landlords, HUD proposes to authorize biennial inspections, enabling PHAs to concentrate their inspection resources on the more marginal and higher-risk units. Importantly, residents would retain their right to request an inspection.

While each of the above-described provisions requires statutory authority, we have established a cross-program working group to identify streamlining and simplification measures that HUD can implement through regulation or notice and are moving aggressively to implement these measures. In addition, we are exploring further streamlining measures that require statutory authority and may be worth pursuing in FY14.

A Stronger Foundation for Public Housing

Our commitment to streamlining and simplification extends beyond the provisions identified above. As we look a bit further out on the horizon and consider the future of public housing, in particular, we recognize the importance of aligning our oversight structure with basic asset management principles.

Small PHAs, in particular, view our existing oversight structure—known as the “Public Housing Assessment System,” or PHAS—as increasingly unworkable. They assert that PHAS is heavy-handed, that small PHAs pose little risk to HUD, and that HUD should therefore scale back its oversight of small PHAs. I understand and appreciate these concerns. We have taken some steps to adjust how PHAs are scored under PHAS, and we are willing to consider others. We are interested, however, in pursuing broader reform in this area in the interest of protecting tenants and the taxpayer’s substantial investment in public housing. Reform that embraces traditional asset management principles and practices will also bring substantial administrative relief to PHAs of all sizes, helping to put the public housing portfolio on a more solid foundation.

Reform of HUD’s oversight structure is the next step along a path whose initial direction was established during the prior Administration, with the implementation of “asset management.” Asset management entailed movement from a system where accounting, budgeting, funding, and management were all performed at the agency level to a system where these functions are now performed at the project level.

Movement along this path picked up a strong head of steam with enactment of the Rental Assistance Demonstration (RAD), which is a top priority of the Department. RAD addresses the contractual relationship between PHAs and HUD. By offering PHAs the option to convert to a long-term, project-based Section 8 contract, RAD facilitates lending to and investment in individual public housing properties. Without a doubt, asset management laid the groundwork for RAD by beginning to build an operating history at the individual project level. This information is criti-

cally important to the lenders and investors who will be underwriting public housing preservation transactions under RAD.

Moving HUD's oversight of public housing to a true asset management model is the next step on the path toward putting the public housing portfolio on a stronger foundation and reversing the portfolio's isolation from the affordable housing mainstream. As we move ahead, we look forward to working with the Committee and our industry partners as we pursue this important change.

Moving to Work

The Moving to Work (MTW) program was authorized in 1996 as a demonstration program. The purpose of the program is to provide a limited number of PHAs² with the statutory and regulatory flexibility to test approaches to providing housing assistance that reduce costs and increase cost-effectiveness, reward work and employment, and increase housing choices for low-income families.

Since its enactment, MTW has enabled PHAs to pioneer innovative practices around approaches to serving homeless families, building resident earnings and assets, leveraging private capital through the project-basing of vouchers and other strategies, and achieving operating cost efficiencies through streamlined approaches to income recertifications, inspections, and the calculation of utility allowances. For example:

- Home Forward (Portland, Oregon) made an award of project-based vouchers to a local not-for-profit organization that provides housing to formerly homeless veterans. The building is served by a full-time resident services coordinator, and supportive services are provided by the Veteran's Health Administration. Home Forward also uses its single-fund flexibility to provide security deposits to veterans using Veterans Affairs Supportive Housing vouchers to lease rental units.
- The King County Housing Authority (KCHA) is able to leverage its MTW flexibilities to build programs involving local partners that bring their own sources of funding to the table. For example, KCHA developed a Resident Opportunity Plan (ROP) in partnership with the local YWCA; Bellevue College, Hopelink; and Washington State's Department of Employment Security. Through the ROP, participating residents receive wrap-around services and financial assistance so they can acquire the skills needed to increase their earned income and ultimately graduate from federally assisted housing. KCHA's flexibility under MTW provides it with the latitude to refine the program iteratively and incrementally, improving resident outcomes as the program progresses, while also supplementing the sources of funding brought by other partners, which are typically constrained to particular activities.
- The Cambridge Housing Authority implemented a tiered rent structure that combines elements of an income-based rent and a flat rent. Rents are established for various income bands and set at 30 percent of adjusted income at the low end of each band. This approach, which is combined with a hardship exemption, produces much-needed rent simplification for both the PHA and residents.

As you know, the Department supports the principles of MTW, including appropriate recordkeeping, reporting requirements, and rigorous evaluation. We look forward to working with the Committee as it considers potential reforms and improvements to the MTW program.

Conclusion

Mr. Chairman, there is an unquestioned need for rental assistance in communities across the Nation. At the same time, there is longstanding consensus around a set of reforms that will streamline and simplify administration of the Housing Choice Voucher and public housing programs. HUD is committed to improving not only the administration of these programs, but its oversight of the public housing program, in particular. Finally, the Department recognizes that greater flexibility for PHAs must be coupled with measures to protect tenants, assure adequate HUD oversight, and evaluate results. Thank you for your consideration of these comments, and I look forward to addressing your questions.

²There are currently 35 MTW agencies.