THE SECTION 8 HOUSING ASSISTANCE PROGRAM: PROMOTING DECENT AFFORDABLE HOUSING FOR FAMILIES AND INDIVIDUALS WHO RENT

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND COMMUNITY OPPORTUNITY

OF THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

MAY 22, JUNE 10, 17, JULY 1, 2003

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Tuesday, June 17, 2003

APPENDIX

THE SECTION 8 HOUSING ASSISTANCE PROGRAM: PROMOTING DECENT AFFORDABLE HOUSING FOR FAMILIES AND INDIVIDUALS WHO RENT—DAY 1

Thursday, May 22, 2003

U.S. House of Representatives,
Subcommittee on Housing and
Community Opportunity,
Committee on Financial Services,
Washington, D.C.

The subcommittee met, pursuant to call, at 2:03 p.m., in Room 2128, Rayburn House Office Building, Hon. Robert Ney [chairman of the subcommittee] presiding.

Present: Representatives Ney, Green, Tiberi, Harris, Waters, Velazquez, Carson, Lee, Sanders, Watt, Clay, Miller, and Davis.

Chairman Ney. [Presiding.] Today, the subcommittee will hold the first in a series of hearings to examine the current operation and administration of the Section 8 housing choice voucher program and to review various proposals intended to make the program more efficient and cost-effective.

The Section 8 housing assistance program was authorized under Section 8 of the U.S. Housing Act of 1937. It is a major vehicle providing rental assistance to low-income families and individuals commonly referred to as the Section 8 voucher program. It is the largest program in the Federal government that subsidizes the housing costs of low-income households. It is administered Federally by HUD, but is managed locally by the public housing authorities, also known as PHAs.

For fiscal year 2003, over $12 billion was provided for the voucher program, accounting for more than one-third of the HUD discretionary budget. Through the housing choice voucher program, eligible families can receive subsidies called vouchers to reduce their rent in housing units owned by private landlords. This is different from the public housing program which allows eligible families to move into low-rent housing units owned by the Federal government. Over the years, the program has often been criticized for its inefficiency. More than $1 billion are recaptured from the program every year despite long waiting lists for vouchers in many communities. The rising cost of the Section 8 program and some of the administrative concerns have caused many in Congress and the Administration to conclude that the program is in need of reform. The omnibus appropriations bill for 2003 adopted proposals to address the rising costs of the Section 8 program. Provisions were included that for the first time base the appropriation for Section 8 renewal program on the total amount necessary to renew all housing units currently under lease, rather than on the baseline number of units allotted to each public housing authority. The rationale for this change was that there have been no significant improvements in the utilization rate of these funds for the last five years. The omnibus bill also created a central reserve fund that the PHAs can use to supplement the rental subsidy costs of vouchers not reflected in their annual financial statements. This will allow the PHAs to lease up to their baseline levels if possible.

In its fiscal year 2004 budget proposal, the administration proposed converting the Section 8 housing choice voucher program into a State-administered block grant. This legislation would dramatically change the way the Section 8 voucher program is funded and operated. The administration's proposal would convert the Section 8 tenant-based voucher program and the Section 8 project-based voucher program to a State-run block grant called Housing Assistance for Needing Families, HANF. While I recognize, as the administration does, that we have to constantly seek ways to improve America's communities and strengthen housing opportunities for all citizens, particularly for our poor, I also recognize the issue of reforming Section 8 is a contentious one.

However, it is an issue that I do believe deserves debate and a sustained debate, so all interested parties should and shall be heard. To that end, beginning today, I intend to hold a series of hearings on the overall Section 8 program and the administration's HANF proposal, receiving testimony from groups and individuals across the spectrum. This is a very important discussion and is one that I will be fully engaged with in the days ahead.

With us today to discuss the administration's view is Mr. Michael Liu, Assistant Secretary for Public and Indian housing at HUD. The administration has put forth a sweeping proposal, and without objection I would like to be lenient with the allotted amount of time for testimony today to give the assistant secretary the opportunity to explain the administration's proposal. I have also introduced a bill by request in the administration on dealing with the issue.

With that, I would see if we have comments from our ranking member.

Ms. WATERS. Thank you very much, Mr. Chairman. I certainly appreciate this hearing that you have organized.

The housing choice voucher program, commonly referred to as Section 8, named after the section of the U.S. Housing Act that authorized it, is the largest Federal low-income housing assistance program. The Section 8 voucher program currently serves about two million families at an annual cost of over $12 billion. Some 2,600 housing agencies, mostly local, administer the program. H.R. 1841, HANF, Housing Assistance to Needy Families, your bill, would convert the Section 8 voucher program to a block grant, transferring its administration to the 50 States, and giving them discretion over allocation of funds.

Directly or indirectly, Section 8 supports over four million apartments. Roughly one in seven renters nationwide benefit from some form of Section 8 assistance. Of the four million Section 8 households, about 35 percent, 1.4 million, have portable vouchers. The HANF proposal would fundamentally change the Federal funding systems for tenant-based housing assistance from one based on actual cost to a block grant that simply distributes Federal appropriations among States. One of the Stated goals of the administration for HANF is to improve the under utilization of the Section 8 program. However, with the recent passage of HUD's funding year 2003 budget, block granting the program to States for this reason is unnecessary, as the problem of under utilized vouchers has already been addressed. The budget provides only enough funds to ensure that every family currently assisted under the program will continue to be assisted, rather than continuing the policy of funding all vouchers, even if they are not being used.

Senate VA-HUD Appropriations Subcommittee Chairman Kit Bond, in a Statement at a March 6, 2003 subcommittee hearing, said, and I quote, in my opinion, HANF is premature. The VA-HUD funding 2003 appropriations bill created a new funding structure for Section 8. Vouchers where public housing authorities receive the funding for all vouchers in use and for any vouchers that can be used up to a PHAs authorized level. This funding approach should result in a more realistic assessment of Section 8 funding needs, and reduce the need to go through the annual ritual of rescinding large amounts of unused excess Section 8 assistance. I think it will take several years to ensure the reliability of this new funding system, but I am optimistic that will become a good gauge of both the actual cost and the use of vouchers.

A January, 2002 GAO report compared the six active Federal housing programs and found that Section 8 vouchers were the most cost-effective. Historically, funding for block grants such as HANF has failed to keep pace with inflation. Under HANF, funding levels would be based on inflation-adjusted figures, as opposed to current policy which bases renewal funding on actual housing costs. Between 1998 and 2003, rents rose by 25 percent. Over the same period of time, the consumer price index increased by 12 percent. Even at inflation-adjusted levels as suggested by the administration, housing assistance is likely to erode steadily under HANF.

If funding levels fall behind the program's needs, as likely will occur, States will either have to contribute their own funds to the program or reduce assistance to low-income families and elderly and disabled individuals in one or more of the following ways: reduction of the number of families that receive housing vouchers, despite the fact that three out of four low-income families eligible for vouchers already go without assistance because of funding limitations. A reduction in the number of vouchers would make the shortage of affordable housing even larger by cutting costs, by shifting assistance to higher-income families. Such families need smaller subsidies to be able to afford housing. As a result, the average cost of providing housing vouchers to these families is smaller than the cost of serving poor families. Also cutting costs by shifting rental burdens to families participating in the program. This can be accomplished by requiring families to pay more than 30 percent of their income for rent, or reducing the total amount of rent that a voucher could cover, thereby making fewer housing units accessible to voucher families.

There is a lot more here, but I think that which I have shared with you basically describes my concerns about HANF. I am very, very worried about this program, Mr. Chairman. This is one of the most significant programs to assist poor people that we have in this country. I come from a State where we have a $35 billion deficit. If you block grant that money to my state, they are going to take some of it and use it for other things. Or if they needed to subsidize it in any way, they could not do it because we just do not have the money. So I would like to hear from others today about your legislation, but I think that this would be one of the greatest shifts in a program that I have seen certainly since I have been in the Congress of the United States, and maybe historically.

I yield back the balance of my time.

Chairman NEY. The gentlelady yields back the balance. Does the gentleman have a written statement?

Mr. GREEN. No public statement, thank you.

Chairman NEY. We will send you a bill for that. The gentlelady from New York?

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

I would like to thank the chairman and ranking member for holding this important hearing today. I would also like to thank Assistant Secretary Liu for testifying.

The Section 8 program is a vital safety net for our most at-risk families. It provides vouchers that allow families the flexibility to receive government-subsidized rental housing in the private market. The tenant-based program gives low-income families the opportunity to move into housing they could not otherwise afford. This gives parents more say in what schools their children attend and more opportunity to live closer to their place of employment and public transportation.

However, the Section 8 program is struggling. As a result of chronic underfunding, only one-fourth of low-income households that are eligible for vouchers receive any Federal housing assistance. Additionally, landlords are opting out of the project-based program and many more are refusing to rent to new voucher tenants. The President says he has the solution; the Housing Assistance for Need Families block grant. President Bush expects us to believe that block granting the Section 8 program will not reduce the number of families assisted. He expects us to believe that it will not shift burdens to low-income families. Mr. Chairman, I believe the President has made his lack of commitment to Section 8 abundantly clear.

In fiscal year 2001, 79,000 new vouchers were appropriated. That was the last year of the Clinton administration. As soon as President Bush took office, the number of new vouchers dropped to 18,000. In fiscal year 2003, no new vouchers were appropriated. The current HUD budget proposal calls for a mere 5,500 new vouchers. Mr. Chairman, there are hundreds of thousands of families on waiting lists. While the rhetoric coming out of the administration is that they are creating new housing opportunities for low-income communities, the reality is that they have systematically ignored them for the past two and a half years. HANF will seriously undermine the financial and moral integrity of Section 8. It creates an unnecessary and costly new layer of bureaucracy, and eliminates flexibility in the program. It will result in no new housing opportunities, and potentially limit the length of time tenants can receive Section 8 benefits.

For these reasons, I authored a letter with my colleague from New York, Mr. Nadler, asking appropriators to fund 79,000 new Section 8 vouchers this year. This letter was signed by 66 members of Congress, including every Democrat on this panel. I will ask unanimous consent, Mr. Chairman, that this letter be inserted in the record today.

Chairman NEY. Without objection.

[The following information can be found on page 166 in the appendix.]

Ms. VELAZQUEZ. I understand the chairman intends this to be the first in a series of hearings on this topic, and I commend him for this decision. We must consider the suggestions of a full range of expert witnesses before rushing to a markup. I believe that the current proposal will not only fail to address the needs at hand, but will make our housing crisis even worse, leaving more families out of assistance and out in the cold.

Thank you, Mr. Chairman. I yield back the balance of my time.

Chairman NEY. I want to thank the gentlelady. Also, without objection, all members' opening statements will be made part of the record.

The gentlelady from California?

Ms. LEE. Thank you, Mr. Chairman. I want to also thank you and Ranking Member Waters for convening this hearing, and to the assistant secretary, thank you for being here.

Today, we all know that our nation is facing an affordable housing crisis; 4.9 million families across the nation pay over 50 percent of their income or rent often for substandard housing. Even when the economy was strong, rising housing prices kept safe, decent, affordable housing out of the reach of millions of American families. The combination now of a weak economy and rising housing and rental prices has created a situation for low-income families that is very untenable.

The Section 8 voucher program has been the principal form of assistance for low-income families, the elderly, and we cannot forget the disabled also. Only 15 percent of Section 8 voucher recipients live in high-poverty neighborhoods, as compared to approximately 54 percent of public housing residents. Clearly, showing the success of integrating communities through the Section 8 voucher program is what we are beginning to see.

So I recommend that we look at how the Section 8 program performs after the changes that were made during last year's appropriations cycle. We should also look at the issue of recaptures and bring in our local housing leadership and tenants to talk about the real problems with local housing affordability and potential solutions. Block granting will not work. This proposal I believe goes in the wrong direction. Most importantly, I think we must increase the flexibility and funding for vouchers in order to eliminate our long waiting lists, recruit more landlords, and broaden our pool of affordable rental units. That is the direction I think we need to go in.

The Housing Assistance for Needy Families fails to effectively address the needs of the Section 8 voucher program and would compound our nation's growing challenges with our housing and state budget crisis. So I think that we do, as the ranking member and Congresswoman Velazquez indicated, I think we need to look at this. We need to have more discussion and we need to try to come up with a bipartisan approach to this. I look forward to working with members of the administration, HUD, and with members of this committee on, really, I believe what amounts to saving our Section 8 program, because I think going in this direction truly will possibly eliminate it for many of our communities.

Thank you, Mr. Chairman, and I yield the balance of my time.

Chairman NEY. I thank the gentlelady, who yields back the balance of her time.

The gentleman from North Carolina, do you have an opening statement?

Mr. WATT. Thank you, Mr. Chairman. I will not take the full time, but I would just thank the witness for being here, and for being available to answer questions.

I am all in favor of improving the Section 8 program. In parts of my congressional district, it works; in other parts, it does not work. But I am not sure that I understand how simply passing the problem along to the States addresses that. I do not necessarily view that as an improvement in the Section 8 program. I suspect what you will get are some improvements in some places and some substantial un-improvements in other places. One thing we know for sure is that there will not be the body of information and experience that has been built up about the Section 8 program by HUD over all of these years, because in effect what we are doing is telling States to start doing something that they have not been doing in the past. I am not sure I understand how that improves the situation. It gets it off of HUD's plate. It passes the buck, but somebody has got to do the hard work.

So I am looking forward to hearing how we think this improves the Section 8 program, not just moves it from one location to another location. So if I can get some answers to that, either in your opening statement; I was looking at your opening statement and it is just kind of like we assume that this movement somehow improves the program. I do not see the structural definition of how that occurs, other than just the assumption. So I hope you can address that as we move along, and I will yield back the balance of my time.

Chairman NEY. The gentleman yields back the balance of his time.

We want to welcome Mr. Liu to the committee; the Assistant Secretary for Public and Indian housing. Without objection, your written statement will be made part of the record. Welcome.

STATEMENT OF HON. MICHAEL LIU, ASSISTANT SECRETARY, PUBLIC AND INDIAN HOUSING, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, WASHINGTON, DC

Mr. LIU. Thank you very much, Mr. Chairman, Ranking Member Waters, and members of the committee. I appreciate the opportunity to appear before you today to discuss H.R. 1841.

The purpose of the Housing Assistance for Needy Families, or HANF proposal, is to improve the delivery of tenant-based assistance to very low-income families. We believe that it will accomplish this objective by retaining the core elements of the tenant-based assistance program, while stripping away the unnecessary requirements and regulations that are not central to the program's fundamental mission. The current program's basic concept is still sound. However, there are serious shortcomings with its design and effectiveness. This is evidenced by two very troubling figures. Over $1 billion of tenant-based assistance have been annually recaptured by Congress; and two, HUD pays upwards of $1 billion in over-subsidy due to errors resulting from the current complicated restrictive program rules which we do have. So on the one hand, money goes unused and thousands of eligible low-income families do not receive subsidies. On the other hand, the government is paying too much for what is used. Reforming and simplifying the program can eliminate both of these staggering problems and provide more, not less housing, to those in need.

In addition, HUD must administer the voucher program through rules and regulations in a one-size-fits-all mode to over 2,500 entities throughout the nation, half of which administer only 250 or fewer vouchers. The sheer number of local administrative entities has significantly diminished HUD's ability to provide quality assistance to the program and to monitor and accurately measure performance. Under H.R. 1841, HUD would be authorized to make grants available to States to provide tenant-based rental and homeownership assistance, either directly or through local entities, to eligible families. I repeat, we are authorized to make grants to the States. We are not mandating that the States take on this program. States who want to take on this program would have to apply with a plan, and we would have to approve that plan.

We believe the States, those who accept this challenge, would be able to make more timely and informed policy and funding decisions based on local need and market conditions, as compared to administrators back here in the beltway in Washington, D.C. These decisions include moving unused funding to heavy demand areas of the State at any given time during the fiscal year; something that takes HUD many weeks, if not months, to attempt to implement; and then tailoring the program to better address the practices of the local market and needs of the community.

States would have the ability to contract with the most effective entities to manage the program in any given area of the State, fostering greater accountability and competition in the program. State administration would reduce the administrative burden associated with running the program by consolidating many of the administrative duties currently replicated by every single PHA in a single state, such as reporting and budget. HANF would retain and expand portability of tenant-based assistance to all areas of the country, including those few areas not currently covered by the voucher program. State administration would eliminate the burden of portability moves within a State which account today for over three-fourths of all moves between PHA jurisdictions. Moves between States would also be easier to accomplish. The number of vouchers available to the State at a given time through normal turnover would permit the State to absorb the family into its own program and eliminate the cumbersome billing process which currently exists among PHAs across state lines.

Some concerns have been raised that the HANF grants may be more susceptible to budget cuts as a block grant or that increases in rents would out-pace inflation. We believe just the opposite would be true. Because the changes brought about by HANF would facilitate greater utilization, the funding levels would be more sustainable and justifiable compared to the current program which Congress just this year adjusted funding levels to account for under utilization. Some assert that block grants have been more vulnerable to cutting in the annual appropriations process than others. In fact, the funding history of the very similar affordable housing type of program, the HOME block grant program, just does not support this suggestion. In the President's fiscal year 2004 budget, the requested appropriation for the HOME program is 14 percent higher; that is adjusted for inflation; than in the program's very first year. The program has in fact received regular annual increases since 1993.

We believe that support in the budget and appropriations process for programs does depend in good part on their performance. By strengthening the performance of the housing choice voucher program, the administration's proposal would increase the chances that future funding increases will be provided by Congress. I want to point out that our 2004 requests for HANF is over $900 million than our fiscal year 2003 proposal. Under 1841, annual funding would be adjusted by a formula that would take into consideration data specifically tied to housing costs, not just inflation in general, as well as the number of the families assisted, extent of poverty, state performance, and funding utilization.

Another misconception is that States would be able to divert HANF funds for other purposes. Our legislation is clear that the program would be limited to tenant-based rental and homeownership assistance and the costs of administering those grants. Conversion to the HANF program would maximize the number of families receiving housing assistance, without shifting assistance away from those families with the most need. The initial amount of the HANF grant would be equal to the sum of all voucher funding currently provided to public housing agencies in the State. The States would be required to maintain assistance for at least as many families as are currently served, and families under the voucher program at the time of the conversion to HANF would continue to receive tenant-based rental assistance under the current regulations through fiscal year 2009. In addition, any family participating in the homeownership voucher program at the time of the transition to HANF would continue to receive homeownership assistance under the same terms and conditions as the current program. Lenders can continue to underwrite loans with the full assurance that the rules under which they base those loans would not be impacted by the conversion of the program.

A major goal of 1841 is to simplify and reduce the administrative burden on the program providers. For instance, a significant problem plaguing the voucher program is the unacceptable error rate of approximately $1 billion a year on the calculation of adjusted incomes and rental subsidies. One of the root causes of the problems is the myriad of different rules covering what qualifies as annual and adjusted income, coupled with numerous temporary full and partial exclusions and income disregards. There are even rules which talk about capitalization of indebtedness; rules involving depreciation of assets; hard to believe when we are talking about a population that really we are not considering those types of issues when we are looking at them.

These policies, however well intended, and many of them directed by past Congresses, have simply made income determinations a far too complicated process. Under HANF, all income determinations would be based on gross incomes. States would have the flexibility to set the percentage of gross incomes that families would be required to contribute as their share of the rent, but that percentage could not exceed 30 percent. Under the current voucher program, families may choose to pay more for higher-priced rental units if they wish.

In summary, 1841 offers us an opportunity to make significant improvements to the housing voucher program. It moves administrative decisionmaking out of Washington, closer to the communities and families affected, along with program flexibility to address local needs. States would have the means to take actions that may be necessary so that program funds are expended promptly and most effectively. Importantly, the HANF program provides government support of self-sufficiency efforts for assisted families, efforts to reduce homelessness, and to help the disabled live independently. It does this by facilitating greater coordination with state-administered programs relating to education and job training and child care and health care, inclusive of programs like TANF and One-Stop Career Centers.

I thank you again for this chance to testify, and I look forward to answering any questions you might have. Thank you, Mr. Chairman.

[The prepared statement of Hon. Michael Liu can be found on page 161 in the appendix.]

Chairman NEY. I want to thank you for your testimony. They have also called two votes, but we will try to get some questions in and then vote and then return.

I just wanted to give you an example, and I do not know if you have looked at this or how it would be written, but in my own state there was a grab of TANF monies, and those monies which should have gone into, in my opinion, the work program went into supplement Head Start. Now, it is not legal and I did not think it was then, but it was done based on the fact that somehow they did education for parents; there was some clever way to remove, or as I used to say, appropriate or steal those funds over, whichever way you want to put it. I did not agree with what they did. If you do this, how do you craft this so you make it crystal clear that funds cannot be used for any purpose but exactly what traditionally the PHAs have used them for?

Mr. LIU. Mr. Chairman, we fully anticipate that in review of the plans from the States that we will be obviously looking to ensure that their plans to make clear that the funds will be used for a tenant-based voucher program. Secondly, in the initial phases of the program, we believe that it is very likely that we will monitor more than just one a year, probably at six-month intervals, again just to ensure that there is compliance with the program requirements, compliance with their plans, so that these types of intrusions on the intent of the program are mitigated and certainly are prevented to the extent that we can.

Chairman NEY. Just to follow up on that, because again I think that we would have to look at other options or what options would be out there, if the governor of a State would not in fact comply and somehow said, look, I think these monies could be shifted and supplemented for; I cannot think of an example right now, but the Head Start was the best example. Do you sue the governor if the State is running a program? Because technically, you cannot use Federal dollars. HANF money, in my opinion, cannot be used to supplement Head Start money that the State of Ohio, for example, should have put in. So what happens, I guess; has anybody thought that out?

Mr. LIU. We have a range of options in the event that a State oversteps its bounds or is not compliant with the program outlines. We can take back the program administration. There is no question in the legislation that the Secretary has the power to do that. We can withhold funds until we are satisfied that the State has righted its ways or assured us that it will not proceed down the wrong path. We have the ability to penalize the administrators involved through civil as well as potentially criminal actions. So we think that we have an array of tools that we can use to prevent those things from happening, Mr. Chairman.

Chairman NEY. The gentlelady from California, do you have a question?

Ms. WATERS. Thank you very much, Mr. Chairman.

This may be a question that is easily answered and everybody else may understand except for me. What if a State decides it does not want to take the block grant?

Mr. LIU. Then HUD will administer the program under the guidelines as outlined in 1841. In other words, we will administer the program with the entities within the State that we feel are good performers, know how to manage the program, and with the flexibility and simplicity which we feel the State was intended to at the start to be managed by.

Ms. WATERS. Obviously, the administration of this program demands a large number of personnel to do it. So if all of the States decided they were going to take the block grant and administer the program, that means you would have to kind of get rid of this part of HUD. Is that right?

Mr. LIU. Absolutely not, Ranking Member Waters. The history of HUD over the past, prior to this administration, because we have increased our personnel at HUD.

Ms. WATERS. What are you going to do with all these people who used to administer Section 8?

Mr. LIU. Right now, these people are basically looking through paper, doing rote type of work. We want to free these people to provide the type of quality assistance, technical assistance, qualitative thinking that right now we have to go outside the agency to get and to pay millions of dollars for. We want to use our staff to do the type of qualitative work with the State entities and their partners in making this program more efficient and better.

Ms. WATERS. We are going to have to go, but I am concerned about all of this monitoring that you are going to do that you cannot do now. What you are basically saying is that HUD cannot do it now. But then you tell us, you are going to make sure the States do it because you are going to set up all these monitoring systems. Now you are trying to tell me you are going to take all of these employees and you are going to use them to do something related to the program, while my state and other States are going to be using part of this block grant to put up whole new systems by which to administer the program, which is extreme duplication. What are you doing and why are you doing this? Don't answer now, we have to leave. We will come back.

Mr. LIU. I will answer you, Ranking Member Waters.

Chairman NEY. If the gentleman will hold, we will be back.

[RECESS]

Chairman NEY. We will begin again, and we will go for questioning to Mr. Green.

Mr. GREEN. Mr. Liu, I guess the biggest question I have is what do you see as the main barriers to increased participation in the Section 8 rental program? What is it that we should be doing to attack those barriers?

Mr. LIU. The main barrier is, as I have outlined, congressman, one, simplification; getting back to the basics of what the program was intended to do, to help people with low income so that they do not pay more than 30 percent of their gross income; very simply. We have over the years created layer upon layer of different directions, many well intended, where in fact we have problems now in figuring out just who qualifies and does not qualify for the program. We end up, as I stated, paying $1 billion more than we should for those vouchers that we use, and then for the vouchers that we do not use, we lose $1 billion on the back end.

Number two, we have a very inefficient system currently in trying to make use of these precious dollars; over 2,600 entities, over half of them manage fewer than 250 vouchers. We spend $10 million extra just to take care of so-called troubled agencies. Those administrative, as well as programmatic in terms of policy, are the biggest barriers.

Mr. GREEN. You have in both your written testimony and your response just now, you have put some dollar figures on inefficiencies and anecdotes and examples. Do you have any idea programwide what kind of savings we are talking about? Obviously, you must believe that there are savings. I think that is the philosophy behind what you are trying to do or what you are proposing to do. Do you have any idea what those numbers would mean, and therefore what the increased participation could mean?

Mr. LIU. Very, very roughly in terms of cost savings, from a very conservative estimate of anywhere from $150 million upwards to; the difficult part is how do you value the type of quality assistance that we are not giving now that we could give to managers of the program. That is difficult to quantify, so that could be another $100 million, maybe more.

Mr. GREEN. Okay, thank you. Mr. Chairman, I have no more questions.

Chairman NEY. The gentlelady from New York?

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Mr. Liu, I am disturbed by what I believe to be a large number of misleading statements in your testimony. To cite two, on page three you said, "some assert that block grants have been more vulnerable to cutting in the annual appropriation process than others, so that block-granting vouchers means that funding is less likely to keep pace with inflation in the future. The funding history of HUD's HOME block grant for housing does not support this argument." However, provisional data from the CBO indicates otherwise, and I have it right here. During the current administration, funding for HOME and CDBG has increased by only 4 percent, while inflation has been 6.1 percent.

Then, additionally, on page four, you said, "States will have the flexibility to set the percentage of gross income that families would be required to contribute as their share of the rent, but that percentage could not exceed 30 percent." Yet the language in H.R. 1841 clearly says that, and I quote, families may choose to pay more to secure better quality housing. To me, this indicates that HUD will expect, and as the budget crisis gets worse, HUD will encourage any family who wants safe, decent housing as opposed to just a roof over their head, to pay more. Yet that is not what you imply in your testimony.

How do you respond to these contradictions, and how can we believe your testimony?

Mr. LIU. First of all, they are not contradictions, congresswoman. The number you gave from CBO is the combined CDBG and HOME figure. The HOME figure is in fact adjusted for inflation at 14.7 percent since the start of the program. For the specific fiscal years you mentioned, the increase is at 10.7 percent. Secondly, in regards to what the legislation States, the legislation clearly States the maximum that the State could impose. Currently, as the program exists now, that any one family could pay is 30 percent of gross income. Excuse me; in terms of the ability of a family to pay more if they wanted to, that is the status quo right now. If a family wants to pay more than 30 percent more, they can. So there is no contradiction, congresswoman.

Ms. VELAZQUEZ. You said that block grants are not susceptible to inflation; eroded due to inflation. But when you look to the block grants, big block grants——

Mr. LIU. There has been an increase in CDBG. I did no mention CDBG in my testimony. I mentioned HOME as the program that we feel is most comparable because HOME program; I said HOME program. That is very specific. The example that we used in our testimony is the HOME program.

Ms. VELAZQUEZ. Someone said that block grants have been more vulnerable. I think that is clear English.

Sir, how will owners respond to the fact that vouchers will no longer be permanently awarded to participating families? How do you respond to arguments that they will be worried about renting to voucher holders because they know that they could be terminated at any time, even if they have always paid the rent, and they are still income-eligible?

Mr. LIU. Congresswoman, the program currently is based on annual contracts, annual leases, by and large, in the various communities that have the program. Landlords are not promised now lifetime commitments on the part of the agencies, nor would they be permitted to be counting on lifetime contracts or leases with tenants in the future. The program will be managed as it is now. Private sector landlords would sign leases with tenants. Those tenants will be by and large on an annual basis.

Ms. VELAZQUEZ. What about if there is a change in family income during the year?

Mr. LIU. Currently, if there is a change in family income and the family goes over income, the housing authority is supposed to make adjustments to the rent paid by that family. If they are in fact ineligible, if they become ineligible, then the housing agency does have the right to terminate that lease. That is under the current program.

Ms. VELAZQUEZ. And if their income goes down?

Mr. LIU. And if their income goes down, the housing agency has the ability and they have the responsibility to adjust the rent paid by that family accordingly.

Ms. VELAZQUEZ. How will that happen if the block grant has already been distributed?

Mr. LIU. The block grant will be in terms of the sums provided to the States. The State will still have to administer the program through leases made with private landlords, just as they are done right now.

Chairman NEY. The time has expired, but I would note we can go into a second round afterwards. What I would like to do at this time is I had yielded part of my time to the gentlelady from California so we could both get a question in. So I have got one more and then we will go on to the gentleman from North Carolina.

The question I have, if this was a recapture problem, did the omnibus fiscal year 2003 bill, did it take care of the recapturing?

Mr. LIU. The omnibus bill took care of the recapture issue, but it did not take care of the programmatic issues, nor did it take care of effective utilization issues. Through the reserve fund and through the ability to reallocate, it took care of the recapture issue, but it did not take care of the complexity issue. It did not take care of the over-subsidy issue. It did not take care of the administrative issue that we have to deal with all these very small entities, thousands of different PHAs that we have to work with now, Mr. Chairman.

Chairman NEY. The reason I asked that, most of the thrust of what I have always heard of why this is needed is because of the recapture issue; the money has come back to Washington and did not get out to the people. So naturally, I was thinking if the omnibus bill took care of the recapture issue, why would we have to proceed? But you are saying there are other factors that would cause the block-granting beyond the recapture issue, correct?

Mr. LIU. Absolutely, Mr. Chairman, absolutely.

Chairman NEY. That makes a whole difference; I will do a second round of questions. If it was just an issue of recapture, one would think that what a housing authority does not use within a State it could automatically shift back to the State, so it does not come back to Washington to be decided whether it was recaptured or not. That could be corrected in a measure.

Mr. LIU. Yes.

Chairman NEY. You are saying that it is issues of utilization, and what else was it?

Mr. LIU. Administration, a better delivery system, complexity of the program so that we can do away with the current problem of for the vouchers we do use, we essentially end up paying $1 billion more than we should be.

Chairman NEY. How much more?

Mr. LIU. Over $1 billion.

Chairman NEY. For?

Mr. LIU. For over-subsidies. In other words, we have found out that our agencies have such a difficult time in calculating income requirements, whether it is for new tenants or recertifications, that we end up paying more than we should be. And then finally, the ability to, from a case management standpoint for providing the best social service playing field for these families, we believe that working with the States who also have primary responsibilities in so many of these programs relating to education, job training, the TANF programs, career training programs, that it only makes sense, good sense, to combine the housing component; not the resources, but the program delivery alongside these other programs.

Chairman NEY. At this time, we will move on to the gentleman from North Carolina.

Mr. WATT. Thank you, Mr. Chairman.

Mr. Liu, how much is HUD now spending to administer the Section 8 program?

Mr. LIU. The full total amount of the program has fluctuated over the past few years between $12 billion and $14 billion for the tenant-based program.

Mr. WATT. That is the administration cost?

Mr. LIU. That is the overall program. For the administration, we have——

Mr. WATT. I am looking for the administration. Has HUD done a calculation of what it costs now to administer the program?

Mr. LIU. $1.2 billion.

Mr. WATT. $1.2 billion, Okay. And how many employees is that? How many employees do you have administering the Section 8 program?

Mr. LIU. That $1.2 billion is what we——

Mr. WATT. I did not ask you whether that; I assume the employees, the salaries are included in that, but how many employees administer the Section 8 program?

Mr. LIU. I could not give you that figure because the number——

Mr. WATT. If you can get that for me later.

Mr. LIU. I can get that for you.

Mr. WATT. Okay, alright. As I understood what you said in response to Ms. Waters's question, you are not going to cut any of those employees.

Mr. LIU. I need to clarify that. The $1.2 billion is what we provide to the housing authorities currently to pay for their administrative costs.

Mr. WATT. That is not the question I asked, though, Mr. Liu. I want to know how much; has HUD done a calculation of what it costs HUD to administer the program?

Mr. LIU. It is about $15 million.

Mr. WATT. $15 million, okay. And you still do not know, I assume, how many employees HUD is using to do that? If you will get that information for me.

Mr. LIU. I can get that for you, sir.

Mr. WATT. Okay. Let me just raise some concerns that I have based on your testimony, which I think is very conclusory in the way it is presented, but raises more questions than it answers. First of all, starting at the end, with the comment that you just made in response to Mr. Ney's question, you say that this is more efficient because it does this by facilitating greater coordination with state-administered programs related to education, job training, child care and health care, inclusive of other state-administered Federal programs like TANF and One-Stop Career Centers. Yet there is no mixing of resources, and for the life of me I cannot understand how this process makes it more efficient if there is not going to be any mixing of resources.

Number two, you say on page four of your testimony that there is an unacceptable error rate of approximately $1 billion in the calculation of adjusted incomes and rental subsidies. I assume that those errors are not being made by HUD; they are being made at the local level. Is that correct?

Mr. LIU. Yes, sir.

Mr. WATT. Okay. So it is not HUD that is incompetent; it is whatever agencies are administering the program in local communities that are doing incompetent monitoring, and you are still going to have some income criteria, so somebody in the local community is still going to have to administer those, I assume.

Mr. LIU. Yes, sir.

Mr. WATT. Okay. And so do you have discretion now; does HUD have discretion now to contract with somebody other than housing authorities to administer Section 8?

Mr. LIU. If the housing authority falls into what we call "troubled status."

Mr. WATT. Okay. And then you would have to snatch it back and administer it yourself, not contract with somebody else, right?

Mr. LIU. We would probably, through a contract, then administer the program with potentially——

Mr. WATT. Are you doing that anywhere?

Mr. LIU. Yes, we are.

Mr. WATT. Okay. So you have found some places where they were just so inept that you had to get somebody else to do it. You are saying the State is more likely to be able to find somebody else than the Federal government is?

Mr. LIU. We think the States are closer to the action.

Mr. WATT. I understand that the State is closer to the action, but this is Federal money that we are administering, and if we are going to cut all the strings that are attached to it, it seems to me we ought to get out of the housing business and let the States collect the money and we would not be involved in the process at all. The Federal objective here, I take it, of Section 8 is to provide decent; we have a national policy to provide decent and affordable housing to people throughout the country. I think me and Mr.—what is the guy's name who ran against Hillary Clinton in New York? Mr. Lazio and I had about a two-hour debate on the floor of the House where he was trying to eliminate that from the housing bill. Finally, he relented. Our national objective still is to provide safe and affordable housing to every American citizen; not a right, but an objective. What I hear you saying is we are going to pass that objective to the States and rely on them to achieve the national objective that we have set. If we have a national objective, it seems to me, and we are going to use national money, it seems to me that we ought to be ultimately accountable for the use of this money. I just do not see that this block granting approach either adds efficiency; we are going to keep the same number of employees and the States are going to come up with a new infrastructure at the State level. They may contract with new people at the local level to administer the program who have no experience in doing it. So we are likely, it seems to me, to end up with an inordinately more inefficient program than we have now. I am just having a lot of trouble understanding that.

Chairman NEY. The time has expired.

Mr. WATT. I thank the gentleman.

Chairman NEY. We will have another round of questions. I want to move on, and then we can come back, so if you could hold that. Can you answer that?

Mr. LIU. Very quickly. I would just point out that in fact today 34 States have experience with the program and manage some form of the Section 8 program. We have national objectives for many areas of domestic policy; in agriculture, in health, in education; and the States manage many parts of those programs.

Chairman NEY. Thank you.

Mr. Tiberi?

Mr. TIBERI. Thank you, Mr. Chairman. I apologize for coming in late.

Mr. Liu, I was dealing with a HUD constituent matter, you can appreciate that. Just kind of following up on Mr. Watt's thoughts, he and I are agreeing more and more lately, which I am not sure is scarier for me or scarier for him. But in terms of the States, if you could share with us your thoughts regarding States' roles in this issue. Let me give you an example and have you respond.

The chairman and I have served in the State legislature in Ohio. Ohio right now is going through, like many other States, a budget crunch. One of the things that the State does not do right now is really deal with housing. They have an agency within the Department of Development that deals with housing from a macro standpoint in terms of bonds. But in terms of actually administering a housing program like the Columbus Metropolitan Housing Authority does today, they simply are not capable of doing it and do not do it.

So my question is two-fold, if you could give me your thoughts on the theory behind the program, if it became the law of the land.

How would States like Ohio have to structure and beef up and provide a bureaucracy for such a program and oversight for such a program? And number two, what would happen to housing authorities today as we know it, in terms of their right to exist, as well as the employees that they have today? I know they are concerned, at least in Ohio, that they would be put out of business.

Mr. LIU. Thank you for your question, congressman. I, too, have served in a State legislature. My home state is Hawaii, where it has a very active housing program, where it does administer a very active loan program. As I mentioned earlier, the legislation in our proposal is not a mandatory program on the part of the States. If the States did not feel that this is the right time for them; if they felt that this was, for whatever reason, not the right program for them to come in for, they need not be part of the application process. In which case, HUD would manage the program.

Mr. TIBERI. Let me share with you, though, my concern. Maybe I did not express it very well. Ohio is going through a budget crunch, and they look, wow, here is some money that maybe we can put into the Department of Development and try to do what HUD is trying to do, maybe for even less money. Many argue that the system is already balkanized. Could this balkanize it worse, when you do not have, really, in some States a bureaucracy, and States would be attracted to the fact that there is this pot of money coming from HUD, let us grab it and try to deal with this issue?

Mr. LIU. The program, first of all, would have to be used for a tenant-based program. There would not be the ability, and it is written into the law; there would be monitoring to that effect that they could not use these funds for other than a tenant-based voucher program. The easiest way for a State, and we think a logical way for a State to deal with the issue of a quick ramp-up to be able to administer the program, would be to contract with those entities within their States which are doing a good job now; those larger entities that have substantial programs which are in fact meeting many of the requirements of even the current complicated situation that we have.

In Ohio, 34 percent of the agencies there are of the small category. That is not an insignificant number. Very easily, the State could contract with those housing agencies that do well, such as the one in the town that you mentioned, in Columbus, to continue managing the program.

Mr. TIBERI. Excuse me, Mr. Chairman, one last question. If that is the case, then under the scenario today, under the theory that you have provided to us under this bill, that let us push it back to the State level, why not just push it back to the local level to start with under that theory?

Mr. LIU. Because we believe the States right now are uniquely situated because of the other types of social service self-sufficiency programs that they are a key player in, in order to manage the program on a regional basis. Local entities are very local in their outlook, in their city or town. The voucher, because we want to give the portability aspects the greatest amount of flexibility and because most of the portability which we see in the voucher program lies within specific States, really sets itself up as the States are in fact the best entities that we see to manage this program.

Mr. TIBERI. Just to follow up, Mr. Chairman, you do not have any concern with respect to States who do not have that ability in abusing that right, that effort?

Mr. LIU. We believe that we will have enough of a monitoring presence to mitigate those concerns, sir.

Chairman NEY. I thank the gentleman. Do you want to co-author that bill with me? Okay.

Mr. Davis from Alabama?

Mr. DAVIS. Thank you, Mr. Chairman.

Mr. Liu, good afternoon to you. Let me, if I can, pick up a little bit on Mr. Tiberi's questions and maybe go in a slightly different direction. There is one layer of concerns, I suppose, that States strapped for cash as they are, will take money that should go to housing and use it for other purposes. There is a more subtle concern that I have got. It is that a lot of States have significant disparities in their urban and rural housing needs, or at least the people who are sitting in state capitals have a perception of that. As you know, in most States, State Legislatures are affected by the population. They are determined by the population, so the urban areas have a lot of votes; the rural areas do not.

I am concerned about the fact that if this program were transferred to the States as you and the administration want, that it would give the States an enormous amount of flexibility to discriminate, if you will, between urban and rural areas. Are there any particular strictures or provisions in place that would prevent States from reallocating funding in ways that might discriminate against rural areas, or even in some cases against urban areas?

Mr. LIU. Congressman, the legislation would require us within 12 months of enactment to come up with a formula that looks at the number of families being served, extent of poverty within the State, cost of housing within the State, the performance of the State in administering grant amounts under this Act or others, the extent to which the State has any funds previously appropriated under the Act, and other measurable items. To the extent that there may be a concern and issues regarding rural versus urban, the Secretary has indicated that is certainly something that we can work on with this committee and others in developing that formula once this is enacted.

Mr. DAVIS. And just if I can follow up on that, Mr. Liu, that I think is a point worthy of being followed up on because as you know, once this is down-loaded and sent to the States with all the things that HUD is doing, monitoring what the State of Alabama does with respect to York and with respect to Birmingham is not exactly going to be high on the priority list. So the concern that I think some of us would have is whatever changes are made, there need certainly to be some provisions in place. For example, Medicaid right now has certain rules and provisions that require States to allocate funding in ways that do not discriminate across regions.

Let me move to one other area. It is my understanding that under the changes that you have proposed, that some of the income-targeting would also be changed. Right now, it is my understanding that about three-fourths of the money under Section 8, or three-fourths of the vouchers, I should say, have to go to what are classified as low-income tenants; people that fall within a certain median range. As I understand it, that could be reduced to as low as 55 percent. Is my understanding accurate, first of all?

Mr. LIU. We would have the ability to waive the 75 percent requirement down to 55 percent, which still preserves the majority of the vouchers going to those at 30 percent or below of median income. But currently under the program, under the current targeting requirements, we find housing authorities having a difficult time providing vouchers to seniors who do not qualify because they may be getting more under Social Security; to those under the TANF program who because of their new work involvement are earning more than the required, or just above the 30 percent level. So while we preserve the basic parameters of the program as they exist today, we believe that the flexibility to allow the States to request waivers from HUD that could not do it on their own, is a reasonable one because we do preserve that a majority; at a minimum 55 percent; would still have to be at that level.

Mr. DAVIS. Let me cut you off just in the interests of time. My concern with that, Mr. Liu, is that may be a fairly noble goal to get more seniors involved in the program, and of course there is nothing that would require States to reallocate the money to seniors. My concern is that at a time when the economy is in such dire straits, we are potentially singling out the most vulnerable people for cuts. That leads to my last area of questions. Right now, as I understand it, States can impose a minimum rent requirement of $50 a month, which doing the math, is $600 a year. Now, it strikes me as being somewhat curious public policy at a time when unemployment is rising and when poverty is rising in some parts of this country to raise the rents on people who are in this program, because of their limited ability to pay rent in the first place. That certainly does not strike me as good policy, and it does not strike me as a good selling point for the administration either.

Mr. LIU. Fewer than 8 percent of the families would be affected by the $50 rent requirement.

Mr. DAVIS. But it would be the poorest 8 percent, though, would it not, Mr. Liu?

Mr. LIU. No, no. Our analysis shows that those who would be affected by the $50 are those that right now are claiming certain exclusions from income; exclusions that would not be available because we are simplifying that whole formula to 30 percent of gross income.

Mr. DAVIS. Mr. Chairman, I think my time has expired.

Chairman NEY. I want to thank the gentleman.

Mr. Clay of Missouri?

Mr. CLAY. Thank you, Mr. Chairman.

Thank you, Mr. Liu, for being here today. You know, if block grants follow their historical pattern and the funding levels erode over a period of years, why would you consider this approach for Section 8 vouchers? Are you interested in sustaining the program or letting it erode over a period of years? We already know that most States would not have the funds to take over the slack caused by the Federal reduced funding. Is this a method of eventually killing the program?

Mr. LIU. Absolutely not, congressman, although I appreciate your concern. Our intent here is to put the program back on a much more sound footing, so that it can perform at a level that we would all be comfortable with so that in fact we can ask for more dollars in the future. Our proposal for 2004 is over $900 million more than our request in 2003. I think that is a specific sign that we are not looking to erode or kill this program.

Secondly, as I mentioned earlier and it was included in my testimony, we cite the HOME program, a block grant program for affordable housing, as indicative of a block grant program that has in fact increased since its inception; increased to the tune of 14 percent since the first year of its coming into play. The administration's 2004 proposal is significantly higher than the 2003 proposal.

Mr. CLAY. Well, predicting an increase would indicate that you predict an increase in the number of people qualifying for the Section 8 program.

Let me also get back to the line of questioning by Mr. Davis, along the States administering the block grant program. I come from Missouri, a Midwestern state. What entity in Missouri do you envision being able to administer the Section 8 funds? I mean, I am sure your staff maybe can help you answer that, but just give me an example of who you would look to, what entity would you look to in Missouri to do this?

Mr. LIU. We would look to see in a State like Missouri, which I do understand the history there, that we would think they would be wise to look toward housing agencies now that are doing a good job in your State of administering the program, and by contract having them do the work for that, and combining the inefficient operators in the State of Missouri with the larger and better-operated programs, which solves many of the issues of delivery. If there were a concern and Missouri decided they did not want to get into the program, they do not have to.

Mr. CLAY. Oh, it is optional?

Mr. LIU. It is not a mandatory program. Yes, sir.

Mr. CLAY. Optional.

Let me also point to a tenant management-run group in St. Louis called Carr Square Village. Representative Waters grew up in that community. It is run by a tenant management group. It is a troubled site. Yet, no action has been taken on that site. Do you have any background information on it? Could you let me know what you plan to do there? Can you shed some light on it?

Mr. LIU. Are you specifically mentioning Carr Square?

Mr. CLAY. Yes, I am mentioning Carr Square Village, yes.

Mr. LIU. Yes, Carr Square, we have taken action, sir. We have moved in court to take over that tenant management association. They have challenged us and we are now in a court battle with that TMC group.

Mr. CLAY. So that is a pending court case?

Mr. LIU. It is in court right now.

Mr. CLAY. And if you prevail in court, then you will contract out with an agency that takes over troubled sites?

Mr. LIU. We will have to find a unique way to deal with that because that is actually an old HOPE I site.

Mr. CLAY. Yes.

Mr. LIU. It is a very complex situation.

Mr. CLAY. And it is very troublesome for us in the community who had so much hope for the project and would like to see some action taken in the very near future on it.

Mr. LIU. We have. We have, through our enforcement center.

Mr. CLAY. I thank you very much, and that concludes my questioning. Thank you.

Ms. CARSON OF INDIANA. Mr. Chairman?

Chairman NEY. Does the gentlelady have a question?

Ms. CARSON OF INDIANA. Thank you very much, Mr. Chairman.

Chairman NEY. I am sorry. Would the gentlelady yield?

Ms. CARSON OF INDIANA. I am sorry.

Chairman NEY. I am sorry. Mr. Sanders is next, and then the gentlelady.

Mr. SANDERS. Thank you, Mr. Chairman.

Mr. Chairman, I would ask unanimous consent that my statement be placed in the record.

Chairman NEY. Without objection.

[The prepared statement of Hon. Bernard Sanders can be found on page 158 in the appendix.]

Mr. SANDERS. Okay. Mr. Chairman, I was also very pleased to hear everybody's respect for the role that States play in our national system. I would hope that that respect would remain when we deal with the Fair Credit Reporting Act, and I look forward to widespread support from your side of the aisle to not preempt States from passing stronger consumer protection, because I will use the record to show how much we respect States' rights and how good States do things. We will look forward to your support when we move to the Fair Credit Reporting Act on that.

Mr. Liu, thank you very much for being with us today. My first question is a pretty simple one, and again because of time constraints, I am going to ask you to be brief. I apologize for that. We have about four million American households who are paying over half of their limited incomes on housing. We have in the course of a year in terms of homelessness in the United States, we are going to have about 1.3 million children at one time or another living out on the streets. Do we have a housing crisis in the United States of America?

Mr. LIU. We have a concern with all families of low income, sir.

Mr. SANDERS. Do we have a housing crisis in America, in your judgment?

Mr. LIU. What we have, sir, is in regions, in certain areas of our country, we certainly do have very difficult housing situations, but it does not stretch across the country in all areas.

Mr. SANDERS. Boy, that was a good answer; very impressed by that. Let the record show that I think we have a serious housing crisis, which is why among other things we have 195 cosponsors on legislation called the National Affordable Housing Trust Fund, which would build 1.5 million affordable units over the next 10 years. The point is, I do not think the administration does think we have a crisis, which is why I think we are not getting the kind of support that we need for affordable housing.

Mr. Liu, my deep impression is that this administration is not strongly supportive of affordable housing. In the year 2001, 79,000 new Section 8 vouchers were appropriated. That was in 2001. But in the year 2002, despite what I consider to be a major housing crisis, that number dropped to only 18,000, and for 2003, no new Section 8 vouchers were appropriated. Can you tell me why in the midst of what I consider to be a severe housing crisis, we have seen a drop to zero in terms of new housing Section 8 vouchers?

Mr. LIU. Congressman, our budget from 2000 to 2003, and inclusive and then adding on 2004, has increased our request by over $2 billion for the Section 8 program.

Mr. SANDERS. But Mr. Liu, you know that is a bit disingenuous as an answer, because you have not added new housing vouchers, unlike previous administrations, but more importantly what you are saying is you are obligated by law to pay the rent for a certain number of vouchers. Rents have soared, and you have paid those rents. Isn't that why we have seen an increase in expenditures?

Mr. LIU. Congressman, we have made requests of upwards of 34,000 for new incremental vouchers, and we did not get them funded.

Mr. SANDERS. From whom?

Mr. LIU. From this Congress.

Mr. SANDERS. The administration has requested 34,000; okay, Mr. Chairman, I would just note for the record that Mr. Liu has told me something that I did not know, that he says that the administration has requested 34,000 new Section 8 vouchers, which the Congress did not——

Mr. LIU. This was in 2003.

Mr. SANDERS. This was in 2003. Mr. Chairman, if I could, Mr. Liu made that presentation. I do not know; I am assuming it is accurate. We would hope that you would; is that accurate?

Chairman NEY. I am told it is accurate.

Mr. SANDERS. I would hope that you would use your influence or have the chairman of this committee help us with those 34,000 new Section 8 vouchers.

The other question that I want to ask, Mr. Liu, is that my understanding; and please correct me if I am wrong here; but the requirement that 75 percent of vouchers go to extremely low-income families could be reduced to as low a number as 55 percent. And the limitation that no vouchers can go to families with incomes over 80 percent of local area median income is modified to permit elderly and disabled families with incomes of over 80 percent of median income to receive assistance. Doesn't this create a situation where some of the lowest income people in our country might be denied Section 8 vouchers, while some upper income people will receive those vouchers? Isn't that a problem?

Mr. LIU. Our current program allows for the exceptions for seniors and disabled, as you read there, congressman. The legislation does permit HUD to grant waivers to the States, with justification, to lower the 75 percent requirement down to 55 percent. However, I do point out that we can currently provide waivers for that requirement for housing agencies under the current program.

Chairman NEY. The time has expired.

Mr. SANDERS. One last question?

Chairman NEY. Let us move on to Ms. Carson.

Mr. SANDERS. Okay. Thank you.

Chairman NEY. The gentlelady from Indiana?

Ms. CARSON OF INDIANA. Yes, sir, thank you very much, Mr. Chairman. I will not take a moment. I was really learning a lot from Congressman Sanders.

In Indianapolis, as in St. Louis, we have a major project there that just is not working. Unfortunately, it is not anybody's fault. Designed as a senior citizens complex and because of the rules, they began to integrate everybody into that system; people that were recently released from mental institutions, people that were released from prisons were integrated into this senior citizens complex, and just created havoc. At this point, the Wye Baker Terrace is I think being consumed by HUD. I have been begging HUD for years to let us do something. My question is, when you have to pull back out of a project like that, what do you do? Do you put it on the market for sale? Or do you seek out new management?

Mr. LIU. It depends on the program, congresswoman, and I am not specifically up to speed on that site that you mentioned. If it is a troubled public housing site, we can mandate that housing agency to get new management. We can take over the agency.

Ms. CARSON OF INDIANA. This is a Section 8 operation.

Mr. LIU. If it is a Section 8 complex, we can take over that property; HUD can take over that property to manage it itself, if need be. We can take it over. Is it a multi-family insured——

Ms. CARSON OF INDIANA. It was designed specifically for senior citizens. That was the origin of it, and then it just turned out into——

Mr. LIU. HUD has the power to take over and manage that site.

Ms. CARSON OF INDIANA. I think you are going to take it back, but I was wondering; well, we can talk about that later.

In your Statement, I was trying to find it right quick, are you integrating both vouchers for Section 8 and homeownership as well into this project?

Mr. LIU. We mentioned homeownership because currently for the last year and a half, we have had a homeownership option with our Section 8 program, where qualified Section 8 holders in certain agencies that provide this option can use their voucher to go to the bank, find a home that they can afford and purchase, and that voucher, the monthly voucher value can be used to write-down the monthly mortgage expense for periods of between 10 and 20 years.

Ms. CARSON OF INDIANA. Okay. So if I am on Section 8, I can take my Section 8 voucher and replace that with a down payment on a home?

Mr. LIU. Not a down payment, but it can help to defray your monthly mortgage costs. It can help underwrite the mortgage.

Ms. CARSON OF INDIANA. Okay, question. If I am in a Section 8 qualified unit that is being provided for by Section 8, and I want to buy that unit, I can use that voucher to buy the unit that I am in?

Mr. LIU. If the owner wants to sell it to you; if you can come up with an agreement with the owner.

Ms. CARSON OF INDIANA. I do not want to belabor the point. I was just trying to understand it. But it does not apply to somebody that is not a current Section 8 recipient. For example, this high rate of unemployment in my district; high rate of foreclosures in my district in Indianapolis remain unabated, and people are losing their homes through no fault of their own. The jobs are vanishing.

Mr. LIU. I see.

Ms. CARSON OF INDIANA. Could they become instantly eligible for Section 8 to use the money for a mortgage payment?

Mr. LIU. No.

Ms. CARSON OF INDIANA. It would be a damned good idea.

Thank you, Mr. Chairman, I yield back.

Chairman NEY. Would you like to ask another question?

Ms. CARSON OF INDIANA. I am through. Thank you, Mr. Chairman. I yield back. Thank you very much.

Chairman NEY. Ms. Waters?

Ms. WATERS. No, I suppose that my question was answered in my absence, about the administering of the program. If not, I will talk with you about it at a later date. But let me just say this, even though my chairman is sitting here and he is carrying the bill, this bill is scaring the living daylights out of a lot of people. We do not know what it means. Some of us are afraid that this is the first step toward the dismantlement of HUD, and that worries us an awful lot. And so, we are going to have to fight and oppose the direction of my good friend's legislation. It will be a friendly fight, but it is going to be a tough one. We just do not think that a change of this magnitude is in the best interests of the folks who need the program out there.

Chairman NEY. I thank the gentlelady. I would note there are going to be 50 minutes worth of votes, so the chair would note that some members may have additional questions for the panel, which they wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions, and for the witnesses to place their response in the record.

The hearing is adjourned.

[Whereupon, at 3:50 p.m., the subcommittee was adjourned.]

THE SECTION 8 HOUSING ASSISTANCE PROGRAM: PROMOTING DECENT AFFORDABLE HOUSING FOR FAMILIES AND INDIVIDUALS WHO RENT—DAY 2

Tuesday, June 10, 2003

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

The subcommittee met, pursuant to call, at 10:00 a.m., in Room 2128, Rayburn House Office Building, Hon. Robert W. Ney [Chairman of the subcommittee] presiding.

Present: Representatives Ney, Green, Bereuter, Miller of California, Hart, Tiberi, Waters, Velazquez, Carson, Lee, Watt, Clay, Miller of North Carolina, Scott, and Davis. Also present was Representatives Ryun and McCotter.

Chairman NEY. I want to welcome you. Today the subcommittee holds the second in a series of hearing to examine the Rental Vouchers Program and the various proposals intended to make the program more efficient and cost effective.

The Housing Choice Voucher Program is HUD's largest program, both in terms of annual budget authority and units under contract, and it is currently administered by approximately 2,600 State and local agencies.

While the costs of the program remains sound, the program has often been criticized for its inefficiency. More than a billion dollars is recaptured from the program every year despite long waiting lists for vouchers in many communities. I think, frankly, that recapture probably is what has stirred this debate.

The rising costs of the Section 8 program and some of the administrative concerns have caused many in Congress and the administration to conclude that the program is in need of reform. Last month the administration appeared before this subcommittee to discuss the housing assistance for needy families, or HANF, proposal as outlined in its fiscal year 2002 budget proposal.

On May 2, 2003, HUD Assistant Secretary Michael Liu testified that States would be able to make more timely and informed policy funding decisions based on local need and market conditions as compared to administrators in Washington, D.C. These decisions include moving unused funding to heavy demand areas of the State at any given time during the fiscal year and tailoring the program to better address the practices of the local market and needs of the community.

Our two panels today, and I want to welcome the panels, consist of tenants, local public housing authorities, the industry groups directly affected by Section 8 programs. I look forward to hearing the different perspectives, and would like to welcome all of our distinguished witnesses as we continue to discuss the ways to improve America's community and strengthen housing opportunities for all of its citizens.

I also want to note that I have done a bill by request to the administration to get the whole issue out there for discussion purposes, without a conclusion frankly on my part in either direction. Also it is the goal of the subcommittee, and we have talked with the ranking member, Ms. Waters of California, to have a thorough discussion and debate on this issue and to have hearings not only here in the U.S. Capitol, which we appreciate you all coming the distance that you have, but also take the hearings out to communities both large and small, in varied parts of the United States to also receive input so that more people will be able to attend that hearing process, and our ranking member will be here.

Right now I will defer for an opening statement to Mr. Scott of Georgia.

[The prepared statement of Hon. Robert W. Ney can be found on page 174 in the appendix.]

Mr. SCOTT. Thank you very much, Chairman Ney. I appreciate this opportunity. Let me commend you for your continuous hard work on this issue, and thank you for holding this important hearing today regarding the Section 8 program and the administration's proposal to change this important program.

I also wanted to thank the distinguished panel of witnesses that we have today. Thank you for coming and giving your testimony.

First, let me say, Chairman Ney, that I believe that no Federal program should be sacrosanct. From time to time Congress should ask if a particular policy is working and if it can be improved. Now, with that being said, I cannot understand how block granting the Section 8 program will help or improve the current system which provides housing opportunities for needy families.

In my State of Georgia, nearly 200,000 low income people are served under the Section 8 program through approximately 200 local housing authorities. These officials understand at the local level the local real estate markets, the local housing issues far better than our good friends, the good folks at the State Capitol.

And, finally, I am concerned about the effect that changes to the Section 8 program would have on residents who are moved out of communities as part of the HOPE VI Revitalization Project. Several questions certainly need to be addressed here today, and one of which to housing authorities is this: How would the hypothetical block granting of the Section 8 program affect the overall operation of your housing authority?

That to me is the fundamental question we have got to answer today. It just seems to me that this process is working. We have to really answer the question, why these changes, and will our local communities be better impacted for this.

I have some serious questions on that, Mr. Chairman, and I look forward to this very interesting discussion this morning. Thank you.

Chairman NEY. I want to thank the gentleman from Georgia for his statement, and I will defer now to Mr. Green of Wisconsin.

Mr. GREEN. No opening statement.

Chairman NEY. Thank you. Mr. Miller.

Mr. MILLER OF NORTH CAROLINA. No.

Chairman NEY. Mr. Bereuter.

Mr. BEREUTER. No.

Chairman NEY. With that, I also I would like to submit for the record a Statement, without objection, the Statement from the National Association of Realtors and the Institute of Real Estate Management, to the subcommittee. Hearing no objection, it is part of the record.

[The following information can be found on page 272 and 276 in the appendix.]

Chairman NEY. I would also note to the witnesses there is 5 minutes allotted time. When the clock turns yellow, you have got about a minute left. When it turns red, it will conclude your testimony. But we would also accept, without objection, hearing no objection, all of your written testimony for the record.

So the 5 minutes is basically just to summarize, and then it will be open to questions from the Members. On Panel I, I want to welcome Panel I, Terri Ceaser is the first Section 8 voucher tenant appointed to serve on the Board of Directors of the Virginia Housing Development Authority. She is enrolled full time in a Master's program for career and community counseling with an expected graduation date of December 2004. Early congratulations on your graduation.

Ms. Telissa Dowling is the President of the Resident Advisory Board of the New Jersey Department of Community Affairs. The board represents 19,000 voucher holders throughout New Jersey. Ms. Dowling also serves as a member of the Board of the National Low Income Coalition.

Craig Garrelts has been the Executive Director of the Hocking Metropolitan Housing Authority—great county I would note in the State of Ohio, and a great district in the 18th—for over 19 years. He received the 1997 National Award of Merit and Program Innovation in Affordable Housing from the National Leased Housing Association, on whose behalf he is appearing today. Also, Secretary Martinez recently paid us a visit down to Hocking County.

Andrew Showe, Vice President of Showe Management Corporation based in Columbus, Ohio, where he works with 60 projects in a Section 8 program. He is an Ohio licensed real estate broker and a certified assisted housing manager. He also serves on the Board of the Ohio Apartment Association.

Barbara Thompson is the Executive Director of the National Council of State Housing Agencies.

I want to welcome all of the people here to testify today. Appreciate you coming to the United States Capitol. We will begin with Ms. Ceaser.

STATEMENT OF TERRI CEASER, TENANT, HOPEWELL, VIRGINIA

Ms. CEASER. Chairman Ney, Ranking Member Waters, other members of the subcommittee. I am Terri Ceaser, and I live in Prince George County, Virginia. Thank you for your invitation to address you this morning.

I am here today as a Section 8 tenant, not representing an organization or agency. I have had the good fortune to be a recipient of the Section 8 voucher issued by Prince George County Housing Authority since 1994. I was first approved for a voucher and was placed on a waiting list for a voucher in 1990. I had separated from my husband and was employed as a secretary at Prince George High School. I was not receiving any child support and did not earn enough money to afford rents on decent housing.

We lived in a house that was too small, in poor condition, exposed electrical wiring, dangling pipes and an unsafe porch. When my name came up to the top of the list and I was issued a housing voucher, I was able to move my children to a decent, affordable home in a safe neighborhood.

This is the home at which I have raised my children. My oldest graduated from college this May. My middle child has finished his second year in college, and my youngest is in high school now.

Not only are my children busy with their studies, but I am also hitting the books. I just completed a lifelong dream of obtaining a Bachelor's Degree, and am enrolled full time in a Master's program preparing myself for a career in community counseling. I will complete graduate school in December 2004.

While still in undergraduate school, I did a class project on the Section 8 housing voucher. Mrs. Hampton Wade, the Director of the Prince George Housing Authority was very helpful with this program. Sometime after I had completed my project, Ms. Wade recommended me for the position on the Virginia Housing Development Authority Board of Commissioners. I was honored to be chosen by Governor Warner to serve.

My family's story is an example of the success of the Section 8 voucher program, but I did not want to give the impression that our life has been easy. Completing my education and making sure that my children do well in school requires choices and sacrifices. We must adhere to a very strict budget with no cushion, but the sacrifice is worth what we will achieve. Section 8 has afforded me the opportunity to provide my family with a stable and safe environment. So I consider this a hand up, not a handout.

I face each day with the determination to succeed, to improve my life and to continue to make a better life for my children. Section 8 continues to make this possible, because decent affordable housing in a decent neighborhood is available. Knowing that I do not have to make a choice between feeding my family and paying rent is a tremendous weight that I bypass, all because of Section 8.

I am not an expert on Federal housing policy, but I am expert on my family and my community. As such, I have very deep concerns about HUD's proposal to take the Federal Section 8 housing program that has a proven track record of success and currently helps 2 million families and turn it over to States that may not be able to do as well, much less even want to administer the program.

Under the program's current structure, the Prince George Housing Authority administers 175 vouchers and has 100 percent utilization rate since 1989. The Prince George Housing Authority has never turned back any voucher funds. Further, there are 110 families on the waiting list in Prince George. We do not need to dismantle our program and start over. What we need is more vouchers.

I want to call attention to three problems that I see in the HANF proposal. The first idea is that the housing voucher program needs to be to changed so it will be more like the welfare program TANF. This seems to be based on the mistaken notion that most people who receive Section 8 vouchers are also on TANF. In fact, the income of most households that rely on vouchers to be able to afford housing comes from employment, pensions or disability income.

Other concerns is one that will not affect me directly since the Governor has already made a commitment to ensuring tenant representation on the State board. But some governors may not be interested in the perspective of tenants and may do away with the current requirement as far as Section 8.

My single largest worry is that there is no assurance that the program will continue to be funded at a level that will keep up with rising housing costs. The point of the Section 8 housing voucher program is to make sure that low income housing people can afford to live in a decent house. If you approve this proposal, Section 8 vouchers could end up with their current homes being unaffordable and having to move to poor quality housing in unsafe neighborhoods, causing disruption in jobs and schooling.

I hope that each of you will take a careful look at this proposal and what it could do to our community. Once you do this, I am sure you will agree that this is a bad idea.

Thank you for the opportunity to share my thoughts.

[The prepared statement of Terri Ceaser can be found on page 179 in the appendix.]

Chairman NEY. I want to thank you. Next witness.

STATEMENT OF TELISSA DOWLING, PRESIDENT, RESIDENT ADVISORY BOARD, NEW JERSEY DEPARTMENT OF COMMUNITY AFFAIRS

Ms. DOWLING. Good morning, Chairman Ney, Ranking Member Waters and members of the subcommittee. I am very honored to testify about the Section 8 program. I am testifying today on my own behalf. I will not be telling you that the voucher program is perfect, but I know from personal experience how the voucher program can help low income people find stable housing and better their lives.

I first received a voucher in 1996 from the New Jersey Department of Community Affairs through its transitional housing program. I now reside in Guttenberg, where both my daughter and I were able to improve our educational opportunities. My daughter is 14 years old now and is already talking about going to college.

When I first received my voucher, I was on public assistance and homeless. But within a year I was able to leave the welfare program with the help of the Section 8. It gave my life the stability I needed to be able to attend school, and my studies helped my community work service at the Public Housing Authority into a job. So I was able to leave welfare.

I received my associate's degree in public policy and urban studies in 2000. I recently became a program manager of a housing resource center. Without a voucher I would not have been able to get my degree. I might not have a job, and my daughter and I would still be homeless.

My studies also gave me the knowledge and confidence to participate as a tenant. When the New Jersey Department of Community Affairs announced the formation of a resident advisory board as required by the Quality Housing and Work Responsibility Act of 1998, I understood that this would be the opportunity for me to provide input. I was elected as President of my RAB in 2001 and serve now on behalf of 19,000 voucher holders. I now serve on the boards of the National Low Income Housing Coalition and ENPHRONT, a national public housing residents' organization.

From my experience the proposal to change the voucher program into a block grant to the States is a bad idea, to say the least. First, I do not want States to have that kind of flexibility that the block grant proposal will allow. I know that it is important to hold on to rules that the Federal Government has established so that taxpayers and Congress will know that the money is being used well to help those most in need. Turning the program into a block grant would give States so much flexibility that it will be detrimental to the very people that the Federal housing assistance is supposed to help.

Another problem with the block grant is its effects on the opportunity for tenants to provide input. Under the block grant, States would not be required to have a resident advisory board. My State has obviously done the right thing already, but other States may not be as enlightened as mine.

I also do not believe that having States administer both TANF and the block grant will guarantee good coordination. Additionally, only approximately 13 percent of the people receiving vouchers are even on welfare.

One program that helps voucher tenants improve their economic circumstances is the Family Self-Sufficiency Program. FSS provides subsidized savings in case management for voucher tenants seeking better employment opportunities. But States will not be required to continue this program under the block grant.

My experience has shown me that the poorest people have the most trouble affording housing, but the block grant would allow States to reduce the percentage of extremely low income people admitted to the program from the current 75 percent to 55 percent.

It is also very important to me and other voucher holders that we do not have to pay too much of our limited income in rent. But the block grant would change the general rent standards, and tenants could be required or would be required to pay significantly more than 30 percent of their income for rent.

Another problem is whether tenant based rental assistance under the block grant would be able to help people live in better neighborhoods. The subsidy that the States would pay might not be enough to let tenants live in neighborhoods that have better housing, schools, and job opportunities.

My biggest worry is that the funding of the block grant will not keep up with the need over time, and that could cause States with even good intentions to have to make changes that would hurt tenants in the program. The block grant will divorce Congress from direct responsibility for individual vouchers, making it easier for Congress to avoid keeping up with the real increases in housing costs.

For all of these reasons, I respectfully and strongly recommend that Congress continue the current system of allocating specific numbers of vouchers to local and State housing agencies under the general framework that exists today.

There are some ways to improve the voucher program without turning it into a block grant, and I testified about some of these improvements last year. I hope that you will consider improvements to the program that are not as radical, risky and insensitive as the block grant.

Thank you.

[The prepared statement of Telissa Dowling can be found on page 183 in the appendix.]

Chairman NEY. I want to thank you. Next, Mr. Garrelts.

STATEMENT OF CRAIG A. GARRELTS, EXECUTIVE DIRECTOR, HOCKING METROPOLITAN HOUSING AUTHORITY, LOGAN, OHIO, ON BEHALF OF THE NATIONAL LEASED HOUSING ASSOCIATION

Mr. GARRELTS. Mr. Chairman, and the members of the subcommittee, my name is Craig Garrelts. I am the Executive Director of Hocking Metropolitan Housing located in Logan, Ohio. I am representing the National Leased Housing Association, whose members include owners, managers of Section 8 housing, as well as public housing agencies that administer the Section 8 voucher program.

We appreciate the opportunity to testify on H.R. 1841, the administration's block grant, or HANF program, which is proposed as a replacement for the Section 8 voucher program.

We urge the subcommittee to reject this proposal. It is a rash proposal, advanced under the guise of reform, that can damage a form of housing assistance that has had decades of bipartisan support.

The Section 8 subsidy has been a powerful and versatile tool for almost 30 years. It can serve the very poorest who need substantial help, to helping those who only need shallow assistance to live in affordable and decent housing.

Among its specialized functions, Section 8 has been used to replace older forms of subsidies that are less flexible, and in the process has preserved older projects and improved affordability for tenants. All told, over 1.9 million families receive rental assistance from the Section 8 certificate program.

The Section 8 program has been the most successful housing assistance program of any housing program at any time. The major problem we have with the program is we just don't have enough of it. Recently, it became quite a common complaint that not all of the funds appropriated each year have been used.

Until this year, appropriations were sized based on an assumption that every authorized voucher would be used for a full 12 months. No one expected this to occur, and the funds were routinely recaptured and rescinded. The recisions reduced the cost of each year's appropriations to the amount actually used for the program. So there was no ongoing adverse fiscal impact from this method of calculating appropriations.

When a problem did arise it was the result of disagreements with the appropriation committees and taking the recisions to offset nonhousing appropriations. For fiscal year 2003, and presumably beyond, the appropriators have taken actions to minimize recaptures, and therefore the potential loss to housing programs of the Section 8 recisions being allocated for other uses.

But today we are more interested not in the recaptures or the recisions, but trying to help as many families as possible use the authorized level of vouchers assigned to each community. Here, action by the voucher administrator and HUD has steadily improved utilization rates. Industry groups and HUD have encouraged administrators, primarily local housing authorities, to take aggressive steps to increase leasing rates. National utilization rates have risen from 91 percent 2 years ago to 95.3 percent as of this January.

We look forward to improving upon this in the future. By no means is this current program a failure. However, we believe the proposed HANF program, if enacted, would be a failure. HUD says the Section 8 program has grown too complex and that by block granting the program to the States it would be simpler. On the contrary, if this proposal is enacted, the current Section 8 program would remain the major program for several years, with all of the so-called complexity. And one or two additional programs with different rules would coexist with the program. How would this be simpler?

To illustrate, all tenant-based voucher holders would be grandfathered for 5 years under the terms and conditions of the Section 8 program. Holders of project based vouchers and those receiving home ownership assistance would be grandfathered for 10 or more years under the old rules. Assuming 1.9 million families are grandfathered and the annual turnover rate is 10 percent, at the end of the first year 1.71 million voucher holders would still be covered under the current system, while 190,000 vouchers would be turned over to the States for the block grant program. At the end of year 5 we would still have 1.1 million vouchers under the current program, and about 800,000 that have gone over to the block grant program.

HUD complains that the Section 8 program requires it to deal with a large number of local public housing agencies. These are the local hands on administrators who, among their many duties, screen and select tenants, check their incomes, find a deal with landlords who agree to participate in the program. They inspect the unit for housing quality standards and lead-based paint requirements, determine maximum subsidies within the HUD established parameters, and select and negotiate with owners who wish to participate in the project-based program.

The Section 8 program as it currently exists requires that public housing authorities be the administrators. The language of H.R.

1841 would result in the continuation of this administrative structure for the grandfather vouchers, with the exception that an additional layer with associated costs would be added.

The movement of funds from HUD to the State to a new administrator and then the landlords would extend the process. We are then more really worried what is going to happen to the families.

Mr. GREEN. [Presiding.] Mr. Garrelts, if you could summarize your testimony. The red light has gone on. We will, of course, be reading your full written testimony as well.

Mr. GARRELTS. Our final concern is with the families, because the change within the program, changing from the basic rent of 30 percent of adjusted income to 30 percent of gross income would have a tremendous impact upon the individual families. And an example cited in our testimony, the net result would be a 25 percent increase in rent to the families.

We are also concerned about making sure that we have landlords participate in the program.

Mr. GREEN. Mr. Garrelts, I need you to wind your testimony up. We have other witnesses we need to get to as well.

Mr. GARRELTS. Thank you. On behalf of National Leased Housing, we appreciate the opportunity to testify today.

[The prepared statement of Craig A. Garrelts can be found on page 198 in the appendix.]

Mr. GREEN. Great. Thank you. I apologize for having to cut you off.

Before I turn to Mr. Showe, I would like to turn to the ranking member of the subcommittee, Ms. Waters, for her opening statement at this time.

Ms. WATERS. Thank you very much, Mr. Chairman.

I appreciate the opportunity to get my statement on the record. I do know that you want to move on with the testimony. However, it is important that as we move into this very, very difficult area and address the proposal of the administration that everyone is clear on how we stand on this.

The housing choice voucher, commonly referred to as Section 8, named after the section of the U.S. Housing Act that authorized it, is the largest Federal low income housing assistance program. The Section 8 voucher program currently serves about 2 million families at an annual cost of over $12 billion. Some 2,600 housing agencies, mostly local, administer the program. H.R. 1841, the Housing Assistance to Needy Families legislation, would convert the Section 8 voucher program to a block grant, transferring its administration to the 50 States, and giving them discretion over allocation of funds, directly or indirectly.

Section 8 supports over 4 million apartments. Roughly 1 in 7 renters nationwide benefit from some form of Section 8 assistance. Of the 4 million Section 8 households, about 35 percent, or 1.4 million, have portable vouchers. The HANF proposal would fundamentally change the Federal funding system for tenant based housing assistance, from one based on actual cost to a block grant that simply distributes Federal appropriations among States.

With the passage of HUD's funding year 2003 budget, block granting the program to States for this reason is unnecessary as the problem of under utilized vouchers has already been addressed.

If funding levels fall behind the program's needs, as likely will occur, States will either have to contribute their own funds to the program or reduce assistance to low income families and elderly and disabled individuals.

A National Association of Redevelopment Officials report shows States would face a 1.1 billion to 1.8 billion in costs to close the funding gap created by the administration's block grant proposal. California represents a large component of the Section 8 program, with 14 percent of the Nation's vouchers and 16 percent of the Nation's leased vouchers. I am concerned that assistance to families currently participating in California's Section 8 programs would be jeopardized under the new proposal.

Under the current Section 8 Housing Choice Voucher Program in California, the average per family rental assistance cost per year is approximately $8,364. The funding shortfall for California to cover 87,018 low income families is at $8,364 per family, and for over a 5-year period would equal $727,878,552.

My question to this administration is, what happens to working families who cannot afford decent apartments under this proposal if States implement a time limit? Only 20 percent of housing choice voucher holders receive welfare benefits. The other 80 percent rely on earned income, pensions or disability income. The need for housing assistance is driven by local housing market conditions and rental housing cost inflation. So using the TANF model is inappropriate.

The uncertainty of block grant funding could have a greater impact on the use of vouchers to support home ownership. Vouchers can only be used to support home mortgages to the extent that mortgage lenders are confident that funding will continue to be available for the length of the mortgage.

Again, I do not believe that a block grant to the States is the best way to realize improvements in Section 8 program, and we need to continue this dialogue to find solutions that work.

I thank you for the opportunity to put that on the record, Mr. Chairman. I will yield back the balance of my time.

Mr. GREEN. I thank the gentlelady for her opening statement. And we would turn to Mr. Showe to resume testimony from the panel.

STATEMENT OF ANDREW SHOWE, VICE PRESIDENT, SHOWE MANAGEMENT CORPORATION, COLUMBUS, OHIO, ON BEHALF OF THE NATIONAL MULTI HOUSING COUNCIL, NATIONAL APARTMENT ASSOCIATION, AND COLUMBUS APARTMENT ASSOCIATION

Mr. SHOWE. Thank you, Mr. Chairman, Ranking Member Waters and distinguished members of the subcommittee. My name is Andrew Showe. I am Vice President of Showe Management Corporation, past President of the Columbus Apartment Association, and current member of the board of Ohio Apartment Associations, and a member of the National Apartment Association.

I am also a member of the National Multi Housing Council, a national association representing the Nation's larger and most prominent apartment firms, and NMHC operates a joint legislative program with the NAA, an industry group representing over 30,000 apartment executives and professionals. It is my pleasure to testify today on behalf of both organizations.

NMHC and NAA commend you, Chairman Ney, for your leadership, and we thank the members of the subcommittee for your valuable work in addressing affordable rental housing in America. We also commend the U.S. Department of Housing and Urban Development Secretary, Mel Martinez, and the administration for their interest in improving the Section 8 Housing Choice Voucher Program.

We too believe it is critical to meet the housing needs of low and moderate income families and believe that improving the Section 8 program is a central part of meeting these needs. However, we urge Congress and HUD to enact reforms to the existing Section 8 program that will encourage apartment owner participation and in turn increase housing availability to voucher holders.

Although it is well intentioned, we think HANF will not reduce the administrative costs to participating property owners and will not maximize program benefits for residents. Instead, the proposed legislation could create new obstacles to apartment owner participation without alleviating existing burdens. The net result can be fewer available apartments for voucher residents.

We wholeheartedly support the Section 8 program as a means for private housing owners to provide affordable rental housing for families who need it. We believe that more apartment owners would participate if the cost of renting to voucher residents were more comparable to the costs of serving unsubsidized residents. We propose the following recommendations to achieve this goal.

First, we urge continued funding for the existing program structure administered by HUD. Historically many criticized the Section 8 appropriation structure because too much funding remained unused each year. Effective this year, Congress enacted changes to minimize recaptures, and, moreover, national utilization rates have risen to nearly 96 percent. We believe that the existing successful appropriations structure should be supported, and we have considerable concerns about a proposed State level funding structure in HANF.

Next, we propose speeding up the move-in process by amending the inspection procedures. We propose allowing PHAs to conduct unit inspections within 60 days after the resident moves in. PHAs could also conduct building-wide rather than unit by unit inspections in certain cases, and rely upon recent inspections.

Alternatively, PHAs initially could inspect a representative sample of units in order to certify that the building and communities are eligible. This would reward well managed properties and allow PHAs to focus their scarce resources elsewhere.

The apartment industry relies on seamless turnover, and delays caused by unit by unit inspections deter participation. As proposed, Section 11 of the bill would extend the existing inspection requirement to HANF, and do nothing to fix the lost revenue problem.

Finally, we urge HUD to enact a more efficient process for PHAs to apply for higher fair market rents that are more reflective of submarket rents. We also propose program changes that will allow PHAs to raise the payment standard to 120 percent of FMR without HUD approval and afford PHAs an increased flexibility to request higher payment standards when necessary. FMRs must be set high enough to encourage owners' participation, and in turn create a sufficient supply of apartments and choices for voucher holders.

We thank HUD for raising the current FMR level to the 50th percentile in 39 high cost areas, but that level is insufficient in areas with outdated FMRs and in certain high cost submarkets. In many areas of my home State of Ohio, FMRs have not been updated in years and are well below market rent in both high cost and moderately priced areas.

In summary, we believe that the existing Section 8 program with improvements I have just noted will make affordable housing more affordable to more Americans. Thank you.

[The prepared statement of Andrew Showe can be found on page 260 in the appendix.]

Mr. GREEN. Thank you for your testimony. Ms. Thompson, welcome.

STATEMENT OF BARBARA J. THOMPSON, EXECUTIVE DIRECTOR, NATIONAL COUNCIL OF STATE HOUSING AGENCIES

Ms. THOMPSON. Thank you, Representative Green, Ranking Member Waters, and members of the subcommittee. Thank you for the opportunity to testify on the administration's proposal to block grant Section 8 voucher funding to the States. I am Barbara Thompson, Executive Director of the National Council of State Housing Agencies.

Mr. Chairman, NNCSHA is grateful to Chairman Ney for stepping forward in defense of the low income housing tax credit when it was threatened by the administration's dividend tax relief proposal. Thanks to his intervention and that of Representative Frank and many other members of this subcommittee, housing credit apartment production is protected under the recently enacted tax bill.

Now, we ask your help in enacting the Housing Bond and Credit Modernization and Fairness Bill, H.R. 284. This bill repeals the MRB 10-year rule, updates MRB purchase price limits, and makes housing credit development viable in very low income communities. We thank the Chairman and the 20 other members of this subcommittee who have cosponsored H.R. 284. If you have not cosponsored this legislation, we urge you to join the 253 House Members who have and urge your House leaders to enact it in tax bill this year.

NNCSHA also is grateful to Chairman Ney for introducing the Housing Assistance for Needy Families Act. NNCSHA neither supports nor opposes this legislation, but we believe it deserves Congress' full consideration. NNCSHA supports a voucher block grant in concept. However, we have taken a neutral stance on the administration's plan because of our serious concerns about the adequacy of the program funding and flexibility it proposes.

Section 8 vouchers are one of our most important affordable housing tools, but the voucher program is not meeting its potential. Its complex rules and regulations block innovation, drive up costs, discourage private sector involvement, and confuse customers and administrators.

The decentralization of funding to more than 2,500 PHAs complicates program administration, increases costs, prevents maximum utilization of funds and frustrates regional and statewide housing strategies. If implemented with sufficient funding and flexibility, HANF could resolve many of the current program's problems and create new opportunities for voucher use.

States have the capacity to administer the voucher program. States possess a multi-decade record of responsibility, effectiveness, and accountability in administering tens of billions of dollars in housing assistance. They possess statewide sophisticated financial asset management and administrative oversight capability. Many States already administer Section 8.

States are uniquely positioned to administer Federal housing resources. They understand local housing needs and markets, while bringing a State and regional perspective to problems that cannot be solved within municipal boundaries. States can ensure housing funding is applied where it is most needed and integrated with other public investments in their communities.

Moreover, States have the ability to bring together State agencies and resources. State agencies are partners, for example, with welfare agencies to coordinate TANF funds with housing assistance. The voucher program, adequately funded and rationally regulated, would benefit from State administration.

States' knowledge of local housing markets, access to other housing and nonhousing resources, ability to respond to changing local circumstances and prioritizing needs across States would overcome many of the voucher program's current limitations.

Federal oversight would be more efficiently concentrated on 50 entities. However, HANF must not be an underfunded mandate. We urge Congress to safeguard vouchers and the low income families who depend on them by authorizing mandatory voucher spending in an amount at least adequate to finance all currently authorized vouchers. Authorizing legislation must also specify that funds would be adjusted annually to cover cost increases.

To work HANF must be a flexible program. It must be free from unnecessary and burdensome Federal requirements. HUD regulation must be limited to that necessary to assure nondiscrimination and accountability for the use of funds to achieve goals Congress sets. Performance standards must not compel States to respond to Federal priorities rather than their own.

In conclusion, exploring ways to improve the Section 8 voucher program is timely and appropriate. A block grant to the States merits Congress' examination and NNCSHA is available to assist you in that effort.

Thank you.

[The prepared statement of Barbara Thompson can be found on page 265 in the appendix.]

Mr. GREEN. And thank you, and thank all of the members for their testimony. I will begin with questions.

Ms. Thompson, you indicated that your organization supports voucherizing in concept, but you were neutral on this particular proposal. What would your organization support? What is it that you would like to see in a voucher program that you would support?

Ms. THOMPSON. We believe this proposal, the idea of block granting the voucher program at least deserves a serious look. We feel, however, that this proposal, the administration's proposal, fails to do two essential things: One, to assure States that they would have adequate funding. We share the concerns of all of the panelists here that what the administration has proposed would not protect States from funding cuts over time, and that is unacceptable.

In addition, it does not give States the flexibility they would truly need to achieve the efficiencies that the administration believes a voucher block grant would achieve. So we would need to see guaranteed funding, mandatory spending, which has been done under other programs like the TANF program, for example. States would need to know from year to year that they were going to get sufficient funds, not only to provide for the families who currently receive them, but to cover increased costs over time. And, frankly, we would like to see new voucher program money in this program. No new vouchers have been appropriated by Congress for several years, yet only one in four families qualified to receive voucher help gets it.

So our view is let's fund the program, not only at a level that will cover families who currently receive the assistance, but let's grow this program to meet the need.

Mr. GREEN. So to summarize, you are looking for more money and more flexibility?

Ms. THOMPSON. Lots more money and lots more flexibility.

Mr. GREEN. You added the lots into that.

What I would invite you to do is take a look at the specifics of the proposal from the administration, and if you could supply to us some written suggestions and language suggestions, I think that would be useful as we go through this process.

Ms. THOMPSON. I would be pleased to do that.

Mr. GREEN. Thank you. Mr. Garrelts, what recommendations would you have with respect to the current program that would make it more effective, more cost effective and more efficient in its administration?

Mr. GARRELTS. Well, the current program, the housing authorities are the primary administrators, and we are the local—being the local administrators, we have to work day to day with the landlords and the tenants. There is a basic cost there to the program that can't be avoided. We do have the management of the actual case for each individual client.We do have to do all of the contracts with the landlords. We have the requirements to maintain updated computer systems that communicate data to the Federal Government. Our basic program, especially in my area, which is a very rural area, there is not a whole lot of fat in the program to be done.

There is a discussion within the HANF program to reduce the number of inspections, and I understand that landlords may like that but our experience has been that we especially work with a lot of mom and pop type landlords. And if they can avoid repairs, they will do so.

But our annual inspections assure that those properties are maintained. That is a cost to the program, but we need to continue forward for doing annual inspections of those units if we want to keep good housing stock. So the basics of the program, at least at the local level, there is not a whole lot of fat to be cut out.

Mr. GREEN. I am not necessarily suggesting that cutting fat is what we are looking at as much as making the program operate more smoothly. Is it your testimony that we can't enact reforms that make it operate more efficiently and more cost effectively?

Mr. GARRELTS. If we would allow, again at the local level, the individual communities to address the variances in the markets at the local level with some HUD oversight for doing variances for, as was mentioned about fair market rents, that is an issue. In my case we have experienced a very tight market where we have an inadequate supply of housing, allowing us to adjust our fair market rents high enough to generate new construction because we are not—I will use our example—in the last 10 years we had an 11 percent growth of our population. During that period of time, that amounted to 1,100 families added to our community. During that period of time we only had 47 new apartments built. The fair market rent in our area was not high enough to generate enough interest from local developers to build any more rental housing. Then we throw in the overall economic status of our community is that 48 percent of our county are eligible for the program. Now, that is very typical in rural areas, is that we have—our median income is low. We do not have a lot of job opportunities available. Therefore, the rent burden is very high for families. So the flexibility needs to be at the local level so we can adjust, either by increasing our fair market rents so that new development can occur, or reducing it if we have plenty of housing stock available, reducing the fair market rent in order to fill the vacancies that exist.

Mr. GREEN. Thank you.

Ranking Member Waters, questions?

Ms. WATERS. Thank you very much, Mr. Chairman.

How many panelists can tell me what their waiting lists are for Section 8 in that area? Do you have any idea?

Ms. DOWLING. Good morning. I can give you an approximate number. Because we are a Statewide agency, we have roughly about at least 8- to 9,000 in different areas throughout the State. We roughly, I would say, have a good 17,000 on the waiting list as a total throughout the whole State.

Ms. WATERS. That is what State?

Ms. DOWLING. New Jersey.

Ms. CEASER. Yes, ma'am. As far as Prince George County, Virginia is concerned, right now there are 110 families that we have on our waiting list.

Ms. WATERS. 110 families?

Ms. CEASER. Yes, ma'am.

Mr. GARRELTS. In our community, because of the very tight market condition, when I say we have no waiting list it is a little misleading, is because we are issuing vouchers upon demand when people walk in the front door. We have a hundred families every month searching for units. That is how we are able to maintain our hundred percent utilization, that although we are not maintaining a waiting list, that is because we put every one on the street to search.

Ms. WATERS. Thank you.

Ms. Thompson, do you have any information about waiting lists for Section 8 vouchers?

Ms. THOMPSON. No specific information on specific States. I can tell you we constantly hear there is simply not enough assistance to meet the needs of families eligible for it. That is why we think it is so important to get beyond this discussion of simply maintaining funding for the current families served. Why aren't we also talking about trying to meet the needs of the many families who are not served?

Ms. WATERS. How many of you believe that if this is block granted that your well-funded States with all of their balanced budgets are going to reduce the number of folks waiting for Section 8? How many believe that?

Okay. Just to add to what you think, the State of California, we have a $350 billion deficit. Not only can we not take care of the many services, many of those services we have done well with over the years, I believe that that legislature would be looking to cut, reduce, do whatever they could to get that budget down. So I would not—so I certainly would not want this to be block granted to my State.

Ms. THOMPSON. I would agree with that concern. And California, as you know, Congresswoman, is not the only State. Many States are facing very severe budget deficits. So we share your concern. Many, many States confront that. That is why we feel it is so essential, and we could only support something like this if the funding was truly mandatory, funding that was guaranteed to flow from the Federal Government to the States in a sufficient amount to cover the needs of families in the program, new families getting into the program, and to cover increased costs over time.

Otherwise, you are absolutely correct. The States could never assume this. They cannot pay for this program. This would only work if the Federal Government continues to support it adequately, just administer it through the States. So we agree with you. That is one of the major reasons, Congresswoman, we have not endorsed this proposal.

Ms. WATERS. Well, I want you to oppose it because—for everything that you have said. I understand you are wanting to have a debate, but you know, I am afraid that this administration is trying to literally get rid of too many programs that the people really rely on and that the States—we cannot count on the States to really continue these programs and administer these programs. In some cases, even through maybe not Section 8, but Head Start and others, they would actually siphon off the dollars from these programs to help reduce those deficits.

I was reminded from a Californian I said 350. But it is $38 billion rather than 350.

Ms. VELAZQUEZ. 350 was the tax cut.

Ms. WATERS. Mr. Chairman, just one more thing. Everybody that I have listened to, and I haven't heard everyone, talked about the fact that the vouchers are not keeping up with the real market rates out there, and I suspect that is true. Again, you know, California is off the scale. I mean, the rents have just exploded. The cost of housing is just off the scale. So unless we increase the value of these vouchers, I don't know how apartment owners are going to make it. I think it is very important for everyone to continue to say that.

It doesn't matter whether they remain with the Federal Government or, God forbid, if it you know transferred to the State, the fact of the matter is we need to increase the value of those vouchers. Does everyone agree on that?

Mr. MILLER OF CALIFORNIA. [Presiding.] The gentlelady's time has expired.

Thank you. Ms. Thompson, you commented that you expected a guarantee from the administration, and that is very difficult because that is our responsibility. We can set a program up but it has to be funded through the appropriators, and an example would be the Buyer Down Payment Assistance Program. We enacted a program, but it has never been appropriated, so we have never been able to benefit from this program.

Looking at the things that were mentioned, I mean the concern about the program, the shortages, I know, Ms. Waters, when we had a hearing last year, Los Angeles County came forward and said their vacancy factor was 3 percent, which meant that they were a hundred percent occupied. The conclusion I drew at that point was you have got X amount of vouchers chasing a limited amount of units.

And Barney Frank and I introduced a bill, H.R. 1985, which increases the FHA loan limits for multifamily, hoping in some way to move people into a place they own. And I think I like the Down Payment Assistance Program, the concept of taking a person who is reliant upon renting a unit and knowing that their rents continue to increase—as you stated, they have in the marketplace year after year—if we can give those people a voucher and let them buy a home, then their rents are capped at a certain limit until they own that unit. That is how I think you create more Section 8 housing out there, if you can get people to a situation, whether we do it with FHA limits, and we can help them with vouchers through the HUD program to go out and buy their own home, that they can take pride in and say this is mine until I die and leave it to my kids.

But it gets them off the system, because if you look at a person who is relegated to Section 8 for 5 years or 10 years, you look at what they were paying originally, and 10 years later you look at what they are paying in rent. The concept of having that person's rent remain consistent from the day they buy it, that is really interesting to me, to be able to get somebody in a home.

I was a developer for years. It is tough, and you talked about building units. The problem we have in many communities, I have seen, I know so many developers who try to do it, when they go a community and they say they want to build Section 8 housing there is an outcry from the neighbors in many cases. Yet when you have communities that would accept them, there is generally no vacant land. We passed a bill out of this committee on brownfields, allowing the local communities to take these polluted sites, to clean them up and we can build affordable housing within communities who want them and need them. But it appears to be a circle conversation here that we are trying to put people in units that just aren't available.

But I would like to hear your opinion on the vouchers for people getting in new homes, be able to buy them.

Ms. DOWLING. The only reason I say that is because this bill doesn't even mention anything about the Section 8 home ownership component at all. That was my question. What happens to that? Because last year we came and we spoke about that. How do we improve it? And now we have got people actually doing what they need to do as far as paying, cleaning up their credit reports, getting into schools, and because we are under the impression that we are going to take the Section 8 voucher and now become a home owner. We understand that it was for 15 years, but at least my mortgage would be paid. Now that is even taken off the table.

Mr. MILLER OF CALIFORNIA. I hope the appropriations committee funds that this year. I think it is an extremely important program to get people into a home that they own. I am on the advisory board for a group called Hart, it is a nonprofit. They put about 50,000 families, first time home owners, into homes. It is 100 percent private dollars. They give them the down payment to help them get in the home.

Ms. DOWLING. You know, God forbid if you block grant this program, I can't get a mortgage from anywhere if they don't know if my funding is going to be paid the following year. So now you take my dream back from me.

Mr. MILLER OF CALIFORNIA. I have to back up to what Ms. Waters said. There are some States I wouldn't mind block granting, but it would scare me to death in California today.

We have some funding in the Federal programs for seniors as an example that the last 2 years didn't get passed through, because they didn't have a budget on time, they get capped basically for cash flow purposes for the State. When the State finally passed a budget, some of these dollars tended to disappear, and that bothers me. But you know when we are looking at a program that almost 10 percent is eaten up in administrative costs, that bothers me. That is a concern, because that seems like an excessive amount.

And, yes, I know there is some people who own units need a little oversight. But I don't believe everybody is a bad renter. There is not everybody out there who owns units that when they get a call from their tenant will not acknowledge that there is a problem and fix it.

Ms. DOWLING. But that is only being done because tenants are not allowed to be at the table, because you cannot tell

me—in my area, that is what helped me a lot in the State of New Jersey. I am very fortunate because we have a State law that protects our Section 8 voucher holders where people can't discriminate if they are renting to them.

But our biggest thing was getting the word out to the residents. We had so many vouchers, and we need to hit the street to utilize these vouchers or the Federal Government is going to take the money back. And we went up from 78 percent utilization to 98 percent overnight. And that——

Mr. MILLER OF CALIFORNIA. My time has expired.

Ms. DOWLING. I was so excited about the fact that we had the law that gave us the opportunity to be at the table, and I think that is why we don't need to block grant this program. We just need to go back to what we put on the table. We worked 2 years to put some very good suggestions on the table about the Section 8 program and all of the changes that have occurred, and we never even got the opportunity to see one of those changes implemented, and now you just want to do away with the program.

Mr. MILLER. Thank you. Mr. Scott from Georgia.

Mr. SCOTT. Thank you very much, Mr. Chairman. I appreciate this. This is just a terrible, terrible idea, and it is my hope that we will not move forward with this effort.

Mr. SCOTT. I served for, well, over 20-some years in the State legislature as Chairman of the Rules Committee and on the Budget Committee, and I can assure you that Ms. Waters is absolutely right, States will use this money any way they can, for anything other than for block granting. States are not equipped to handle this. We do not even have a Housing Department in the State of Georgia. Taking it and moving it away from the local communities is not the right thing to do. There are just so many areas; it reduces assistance to low-income, it weakens the low-income protections, it curtails tenant protections. It is just a bad, bad, bad piece of business.

I certainly am sympathetic to your concerns, Ms. Thompson. I am glad to see that you are at least neutral on this issue. But I would say that the major argument of HUD, in terms of having to deal with 2,600 more entities, is really flimsy. That is what they are there for. They are a Federal agency. They are equipped to handle. They handle hundreds of thousands of contacts with other folks, 13,000 subcontractors with Section 8 already, nearly 4,000 public housing units. And just to say that they are having difficulty with another 2,600 is sort of superfluous.

Let me ask a couple of questions for the local housing, if you could just give me very briefly what changes, hypothetically, would be in place if we were to go forward with this. I think it is important for you to get on the record what impact that would have on these local housing authorities if such a thing would go forward.

Mr. GARRELTS. Well, I think one of the things that may occur is there is no mandate to the States to distribute the funding in the manner in which we are currently receiving it. So in our case, in Ohio, and probably in Georgia, where you have many rural housing authorities serving small populations, we may end up in a competitive process in order to retain the housing resources we have within our State. I have already had discussions with my peers in Ohio that if that opportunity was available, the larger cities would go after every dollar they could to bring into the cities, which after all is where a larger population center is, and they would like to take all the dollars into their coffers. So that would certainly have an impact upon the rural housing authorities throughout the country if the State would allow that type of process to occur. I think that is certainly a concern that we would have from a small housing authority.

Ms. DOWLING. But also, with this new bill, if you block grant it, it goes from helping 75 percent of the extremely low-income people to only 55 percent. And then if you block grant it, that means the housing authorities are now going to look for people that are making well above the extremely low-income people to actually bring them on board to help offset that voucher. Because once you give them the vouchers, what the State will do locally is set. If a voucher at a certain amount, like $500, then you will have to find someone where their 30 percent will offset the $500.

So now my extremely low-income people are still homeless, yet HUD keeps saying they want to do away with homelessness. This will create a cycle of even more homelessness and now touch on families that become homeless. It is just not a good thing at all. It is just going to be terrible, really terrible.

Mr. GARRELTS. She brought up an interesting issue about the 80 percent of median and the very low-income target population we have now. I think that, within the guise of this HANF proposal, there is a thought that you would reach a higher income group through this proposal. But, actually, if you look at the payment standard and you do the actual mathematical calculations, in many markets, and this is not going to be true of all markets because this is a market-driven issue, certainly this would not necessarily be the case in Connecticut that has very high rents, but in Ohio, Georgia, Indiana, Illinois, where you have a mix of rents, when you do the mathematical calculations for the family, if you have a family approaching 80 percent of median, and you do 30 percent of their income requirement for their housing cost, more than likely it will exceed the payment standard established by the State.

It does that now under the fair market rent schedule that we have. In my county, in Hocking County, Ohio, if I have a family at 80 percent of median and I do the mathematical computations, 30 percent of their family income is greater than my fair market rent standard, so they get no assistance.

Mr. MILLER OF CALIFORNIA. [Presiding.] The gentleman's time has expired.

The language in the bill does clearly state that the same amount of people have to be helped through block granting, you cannot decrease it from 75 to 50 percent. So that statement is, in fact, not accurate based on the language of the bill itself.

Ms. DOWLING. But when you go back and use——

Mr. MILLER OF CALIFORNIA. No, that wasn't open for a response.

Ms. Hart is recognized for 5 minutes.

Ms. HART. Mr. Chairman, I'm interested in a response, actually, from Mr. Garrelts and Mr. Showe, if that is correct, regarding how you would envision, considering that you are now dealing with housing projects where 20 percent of the voucher system's funds are connected to the specific units themselves under the project-based voucher program, when a PHA enters into an assistance contract with an owner for those units, it is for a specified unit, a specified term. Do any of you, first of all, deal in project-based vouchers? I'm assuming you do, but maybe I'm wrong.

Mr. SHOWE. I can respond to that. Our organization does have project-based rental assistance, however, it was contracts entered into directly with HUD. I realize there are those tenant-based vouchers that can be assigned to privately-owned houses, but my company does not have any of those units available to be assigned to our company. In our experience, we have solicited trying to get those types of permanent tenant-based assistance assigned to our apartment units and we have found, in dealing with the different housing authorities, that they did not have sufficient funding to go do that. So that is our experience.

Ms. HART. Okay.

Mr. GARRELTS. In our experience, we attempted to try project-based programs on a couple of occasions. But working in a tight marketplace, where we are trying to obligate the owners for a 10-year contract, they just were not interested because they had a line out their front door, and they could lease as many units as they wanted to. So having a project-based certificate just had no value to them. So we could not interest them at all.

Then again, with our fair market rents——

Ms. HART. Could you not interest them because of——

Mr. GARRELTS. They had so many folks. if you have a unit in my community, you would have five people wanting to rent that, and you do not need to have any assistance to get those clients in there because they will pay the rent.

Ms. HART. Okay.

Mr. GARRELTS. It may be unique—well, it is not unique when you go around the country. There are many marketplaces that are like this right now, where the demand for units exceeds the supply. And in those types of circumstances, project-basing is really of no use because the owner doesn't need that. Project-basing works in those weak markets in which the marketplace has too many units for clients. And then in those types of cases, the owners really like that because then they are guaranteed some money for their units whether or not they are occupied.

I shouldn't say this, whether or not they are occupied or not, because that is not totally true, but they are at least guaranteed they are going to get someone referred to them to fill that unit within a reasonable time.

Ms. HART. Do you envision any change to that under the new HANF block grant proposal? Do you think that would change the situation at all?

Mr. GARRELTS. Under the new HANF program, they have not defined anything as it relates to project-based vouchers or certificates. And as I understand it, there is a new HUD rule that is coming out on project basing that is going to be implemented, and certainly that would have, or HANF would have a negative impact on that new rule. I have not seen the new rule, but I understand that the industry is pretty happy with that.

Ms. HART. Okay. Mr. Showe, anything additional?

Mr. SHOWE. I guess from our perspective we feel the public housing authorities do a terrific job in administering the Section 8 vouchers, and as far as the ownership of these different properties are concerned, the most important thing to do is to allow it to be transparent whether they are a Section 8 renter or whether they are a conventional renter. And the ways to make that happen is to eliminate the lease addendum in order to allow our managers to work off of one lease agreement. Because it causes tremendous confusion in training and administration of the lease rules and policies when you have to have two separate leases for the Section 8 voucher holders as compared to a conventional rental unit.

The other factor is we lose a lot of money trying to get the inspections scheduled for the individual apartment units. Sometimes it takes up to 30 to 45 days to schedule those inspections when in fact the family is ready to move in immediately. So not only do we lose but the voucher holder loses too because they are anxious to move in and find housing.

Ms. HART. So is that red tape experienced by both of you as far as the whole system itself?

Mr. GARRELTS. No, I think that is a market-driven issue. In our community we are able to respond very rapidly. Within basically 10 days of a request to go out and do an initial inspection, we are able to do that quickly. But if you go into large population bases, and again this gets back into the basic staffing requirements in order to do the program, in large population bases where you may have 5,000 or 6,000 units in an area, they do not have 5,000 or 6,000 inspectors. So it is a little tough to get the inspectors around to inspect. If they are leasing out 400 units in a month, and that is not an unusual number that could occur, you just physically cannot have enough people around to go do those inspections.

Mr. GARY MILLER. The gentlewoman's time has expired. Miss Velazquez is recognized for 5 minutes.

Ms. VELAZQUEZ. Mr. Garrelts, you state in your testimony that you believe H.R. 1841 has the potential to have a dampening effect on landlord participation in the Section 8 program. You make specific mention of potential for problems with the project-based Section 8 program.

Would you please expand on this conclusion and indicate if you believe this effect is likely on both the tenant and project-based program or only one of the two?

Mr. GARRELTS. For the project-based program, it is of great importance, in order to attract an owner to participate in the program, that it is an easy process for them. Any extra administrative burden thrown at them is an extra cost for them, and they have that operating cost to be concerned with. So if under the HANF program we would go forward and we would still have the old existing project-based certificates in place, they are grandfathered, you would have the problem that that management company would be faced with two different sets of rules. So you have just violated the basic principle of keeping it simple. The management company would be real reluctant to continue participating in project-based units if they have different rules to follow.

The same would occur within just the regular tenant-based program where the tenant is going out and searching. You have a tenant that has a grandfather voucher. They go out and call on a landlord, walk up to the landlord and say I would like to rent your unit. The landlord is accustomed to our program, they rent him up, they know the paperwork and everything is just fine. The next tenant comes along and says I have a new voucher under the proposed rule and I have all these different things I have to do. Suddenly the landlord is saying, I don't want to learn anything new.

Most of the landlords want to be able to keep their management relatively easy to do. They have staff they have to train. The process of keeping everything standardized is very important.

Ms. VELAZQUEZ. Thank you. Ms. Thompson, in your testimony you cite approximately $1 million in annual Section 8 rescissions as one of the most significant symptoms of problems with the current Section 8 system. Yet in the fiscal year 2003 appropriations bill steps were taken to better account for Section 8 funds and ensure fewer rescissions. Given these new changes to the Section 8 program, doesn't it make sense to see the results of those changes before authorizing a complete overhaul of the program?

Ms. THOMPSON. Certainly steps were taken in the most recent appropriations bill to avoid those kinds of large recaptures in future years, but that doesn't solve the under utilization problem.

We don't think an answer to under utilization is to simply take back the money you gave to PHAs. That's effectively what Congress is trying to do. They are trying to identify just how much money is really being used, and in case we are wrong we will create this little contingency fund. But our answer is, wait a minute, we want to see all authorized vouchers used. And we think a way to do that is to create the program flexibility that will lead to higher utilization as the HANF proposal could do.

Ms. VELAZQUEZ. So tell me, how is rescission issue answered through the proposed changes?

Ms. THOMPSON. I don't think the rescission or recapturing or avoiding recaptures solves the problems that vouchers cannot be used in all communities. We think a program that has more flexibility to move those vouchers around the State so they can be used to change payments standards where necessary to increase usage—we think this is what needs to happen, not just taking the money back if it doesn't get used.

Ms. VELAZQUEZ. How do you respond to concerns that State flexibility will make it harder for voucher holders to move between States?

Ms. THOMPSON. To move from State to State? We have many housing programs now where the rules are different from State to State and the housing industry manages those rules fine. You already have portability issues, even within States, under the current program. So I don't see that as a barrier. In fact, we think it is an advantage that States with very different local conditions can design a program that meets their needs, not one that looks like every other State.

Ms. VELAZQUEZ. Thank you. Thank you, Mr. Chairman.

Chairman NEY. Thank you. Ms. Lee.

Ms. LEE. Thank you, Mr. Chairman.

Let me just thank you again for this hearing, and I want to associate myself with the remarks of our Ranking Member from California, Ms. Waters, who kind of laid out what many of the issues are in California as it relates to Section 8 housing.

Me, coming from northern California, for example just in Oakland alone, we have 8,000 people on the waiting list for Section 8 housing. Section 8 housing is such an important instrument for affordable housing. I hate to see it going in the opposite direction, which I think this bills takes it. I don't think this will strengthen Section 8 and provide for more adequate housing for those who are on waiting lists, but, in fact, provide less housing for less individuals.

A couple of things I just wanted to ask, I guess Ms. Thompson and Ms. Dowling. One is this new legislation allows now for the State to contract with or to designate any agency, whether it is a public housing authority or not, just any agency, to act on behalf of the Feds in terms of providing Section 8 housing. How do you see this in terms of, one, the political ramifications of this, and, two, in terms of just the discriminatory or the possible discriminatory ramifications of allowing any agency that has not been involved with housing to become part of this process in terms of administering the program?

Quite frankly, this provision really does scare me to death. Ms. Thompson, then Ms. Dowling, please.

Ms. THOMPSON. We think the flexibility that the legislation gives States to work with partners, both existing PHAs and other entities, is important. We know that the States would impose standards, high standards, on who would qualify to do that work. We believe that many PHAs currently operating, good PHAs, and the vast majority of them are very effective, would continue to be the States' partners in this program.

Ms. LEE. How do you know that, though?

Ms. THOMPSON. In talking with our State agencies, they report to us that the vast majority of PHAs in their States are very effective. They see themselves stepping more into the role of HUD, hopefully, with a lot less regulation and bureaucracy, than stepping into the role of the PHAs.

Ms. LEE. You don't see any politicizing of this as a possibility?

Ms. THOMPSON. Certainly, there will probably be some PHAs that States will prefer not to work with, based on their track record, but we think, on the whole, the very effective network will be preserved and the partnership between the States and the local PHAs would be an effective one, much more effective.

Ms. LEE. Then why wouldn't we just use existing public housing authorities, if they are so effective?

Ms. THOMPSON. I think it is important to give States the ability to decide whether or not to work with them. There may be entities in some localities that would be more effective than the existing PHA. We all know there are some, though limited in number, ineffective PHAs. So that flexibility is important.

But, remember, what we are trying to do here is create a program where States can come up with different requirements so it is not a Washington-driven program. And HUD can't oversee a program like that, 2,600 different programs around the country. But, States can, and we think they can do it well. But, again, I want to stress only with adequate resources and flexibility, which this proposal does not provide.

Ms. LEE. What about standards and requirements?

Ms. THOMPSON. We think——

Ms. LEE. And nondiscrimination?

Ms. THOMPSON. We think certain standards are appropriate. This legislation contains a lot of them already. If you were to go in this direction, we would want to work closely with you to determine what are the appropriate standards. Certainly Federal standards, in terms of who is served under this program, would be appropriate. We would just hope that they would not be extensive, such as the requirements under the existing program.

Ms. LEE. Ms. Dowling, what do you think in terms of the questions I asked?

Ms. DOWLING. Well, first of all, I know straight off, I can keep it simple, there is going to be a lot of discrimination going on. That's why we had to implement a law within the State of New Jersey to protect our voucher holders.

And as far as the other, there is no mechanism within any State I know, other than the State of New Jersey. The residents come out and participate. We will fight and, hopefully, it will be done properly within the State of New Jersey, but that is not going to happen across this country. You're going to have the "good old boy" network getting back in charge, and saying, you know what, we're going to take care of you if you can get me some votes coming up out of your area.

So we are going to have even more discrimination. It's going to be worse than what it ever was before. Everything we fought to get here within the last 30 years with civil rights is going to go right out the window, and I can't make it more simple than that.

Ms. LEE. Thank you very much.

Finally, let me just say that I find it very ironic that generally those pushing this, the Republicans especially, this type of initiative, support local control. But in this instance now, we are going to another form of State control, I guess, and taking really away the local control aspect of Section 8. For me, this is backwards and will hurt us in the long run.

Ms. DOWLING. But you know what, I think great minds think alike, because that was the first thing when I read the bill, it was like, "oh, you know what, this is going to break up a lot of strongholds across this country." And that's exactly what they're going to do with it.

Ms. LEE. Thank you.

Chairman NEY. Thank you. We appreciate the witnesses on the panel, appreciate your testimony, and thank you for coming to the U.S. Capitol.

We will move on to Panel II, and we will have a couple of introductions.

Mr. R.E. "Tuck" Duncan, Chairman, Topeka Housing Authority, Topeka, Kansas; Ms. Sandra Henriquez, Administrator, Boston Housing Authority, Boston, Massachusetts, appearing on behalf of Council of Large Public Housing Authorities (CLHPA); Mr. Tino Hernandez, Chairman of the New York Housing Authority, New York, New York; Mr. James Inglis, Executive Director, Livonia Housing Commission, Livonia, Michigan, and Senior Vice President, National Association of Housing and Redevelopment Officials, Washington, DC; Mr. Kevin Marchman, Executive Director, National Organization of African-Americans in Housing, Washington, DC; and Mr. Neil Molloy, Executive Director, St. Louis Housing Authority, St. Louis, Missouri, appearing on behalf of Public housing Authorities Directors Association (PHADA).

We now will defer to Mr. Ryun for an introduction of Mr. Duncan.

Mr. RYUN. Well, first of all, I want to thank the Chairman for allowing me the opportunity address this subcommittee. I am grateful that you have scheduled a series of hearings on this important subject and specifically applaud you for the balanced set of witnesses you have selected.

I will be very brief, but I am extremely pleased to have the opportunity to welcome a constituent of mine to the subcommittee, Mr. Tuck Duncan. He is the Chairman of the Board of Commissioners for the Topeka Housing Authority in my district. Tuck truly is working on the front lines of this issue we are discussing, and his commitment is not only signified by his appearance here, but it shows as to how significant he believes this is.

I believe that you will benefit tremendously from the experience and expertise that Tuck has acquired from his services in Topeka. This is an excellent opportunity to hear from someone who knows, firsthand, the issues surrounding this debate.

Tuck, thank you for being here, and thank you for the work you do for everyone in Topeka, and I return my time to the Chairman.

Chairman NEY. Mr. McCotter, for an introduction.

Mr. MCCOTTER. Thank you, Mr. Chairman, and the entire subcommittee for kindly allowing me to welcome and introduce one of my constituents and one of your panelists this morning.

Since 1977, Mr. Jim Inglis has been the Executive Director of the Livonia Housing Commission, which tirelessly and effectively serves approximately 1,500 low and moderate-income Livonia families through a wide range of State, local and Federal programs. In fact, under Jim's leadership, the Commission has been rated a high performer by HUD's Public Housing and Section 8 Voucher Assessment Systems. Further, his peers have recognized his outstanding achievements, and Jim currently serves as Senior Vice President of the National Association of Housing and Redevelopment Officials.

Jim, welcome, and thank you for appearing before this committee to testify on the issue of affordable housing. And good luck on the flight back, because I know you like to fly about as much as I do. Northwest will be kind to you, and tell my mother I am behaving out here.

Thank you, Mr. Chairman.

Chairman NEY. I thank our two members for their introductions, and with that we will go straight into the testimony, starting with Mr. Duncan.

STATEMENT OF ROBERT E. "TUCK" DUNCAN, CHAIRMAN, TOPEKA HOUSING AUTHORITY, TOPEKA, KS

Mr. DUNCAN. Thank you, Mr. Chairman.

First, as a former miler and cross-country runner, I must say I am humbled to have Congressman Ryun introduce me. It has placed me in seventh heaven. And if my spouse of 29 years heard that I said I was humbled, she would probably find that amazing, but nonetheless.

Mr. Chairman and Ranking Member, I am greatly pleased to be here this morning. The committee has already accepted our remarks for part of its record, and I am not going to read my remarks. I have a few notes and comments I would like to make, and I would like to try to briefly respond to some issues that have been raised by some of the questioning of the other committee members.

As Congressman Ryun noted, I am a volunteer. I am one of those uncompensated persons on the front line of the Board of Commissioners throughout the country and those 2,600 housing authorities, save one or two larger housing authorities. We were a troubled agency in Topeka, Kansas, in 1999, as so declared by HUD when I went on to the advisory board. We, for a couple of years, worked to get ourselves extracted from under the aegis of the city government and became an independent governmental entity under our municipal housing laws in 2001, and it has been my pleasure to serve as Chairman ever since.

The first thing I would note is that I think if there are housing authorities out there that are in trouble, I think HUD, quite candidly, has been slow to recognize them and, therefore, slow to act. So if I have one recommendation it is, the first thing is that the sooner we identify those local housing authorities that are in difficult times, the sooner we get in and try to provide them with assistance.

I congratulate HUD in working with us, and I guess I am one of the few who perhaps feel that we have had some really great Federal-local partnerships. But for the work of the TARC office out of Cincinnati and the work of the Kansas City area office, I am not sure we would be as good a housing authority as we are today.

In my comments, I noted that when we started we had a vacancy rate of almost 20 percent in public housing, and we were only using 60 percent of our vouchers. So we were one of those housing authorities that had under utilized vouchers and you were recapturing money, and we were accruing those funds and having to pay it back in the following year, because we were getting the money, were spending it, et cetera. So what did we do? Well, we simply applied some very lean management principles of business in order to try to make ourselves effective landlords in public housing and effective administrators of a Section 8 program. Today, my vacancy rates are less than 3 percent in public housing, and we have 100 percent utilization of our vouchers.

The point of that is, that by applying public sector management principles, you can run an effective program. Now, I was here at your first hearing, I happened to be in business, I listened to the Secretary's comments. I guess my difference is that I see housing as a national problem that requires national solutions. I don't see how 50 different approaches for solving this problem and 50 different slowly dwindling, patched-together funding stream combinations are going to be an improvement. I guess I have more faith that the Congress and the Federal agencies can address these issues than perhaps some others do.

I notice that Congress and HUD have already enacted a number of reforms, such as the Quality Housing and Work Assistance Act in 1998, the final rule received in 1999, the notices received in 2000. I guess what I see is that merely creating the States in the in between is creating a series of 50 or 60 mini-HUDs. We don't need a series of mini-HUDs. We already have them; they are called the regional offices, and we can work with the regional offices just as effectively as we can with the State governments.

Additionally, I think you should, as Congress, give it some time before the reforms take place. In essence, before we reform the reforms, let's see if the first set of reforms are having some impact. Like any investment, you don't expect your profits or your return quickly. You try to take a long-term approach. Based on HUD's own March 2000 Section 8 reports I think there already is an awareness, both nationally and at the front line, that we must improve performance. If we hear nothing else today, we must improve performance if for no other reason than the participants of this program deserve our best efforts.

The question's been asked, how many are on waiting lists? I checked this morning before I came in, and I have 1,525 on the waiting list. I have about 1,100 vouchers. Part of the problems that we are having are there are no incentives for landlords to get involved in this program. If you want to have housing, you have to have landlords under Section 8. And you want to have quality, good neighborhoods, because one of the problems is mobility; move people out of areas where the fair market rents allow you to rent into areas where the fair markets otherwise wouldn't allow you to rent. And we have difficulty there. That is one of the goals. I don't see that the State is going to know any more about that than I do.

Well, 5 minutes goes fast. I will be glad to respond to any questions that the committee may have, and I have some specific recommendations if you are so interested.

Thank you, Mr. Chairman.

Chairman NEY. I thank the witness. And, again, the testimony can be submitted for the record that you have in writing, without objection, and we will go on to the next witness.

[The prepared statement of Robert E. Duncan can be found on page 189 in the appendix.]

STATEMENT OF SANDRA HENRIQUEZ, ADMINISTRATOR, BOSTON HOUSING AUTHORITY, BOSTON, MA, APPEARING ON BEHALF OF COUNCIL OF LARGE PUBLIC HOUSING AUTHORITIES (CLHPA)

Ms. HENRIQUEZ. Good morning, Mr. Chairman, Ranking Member Waters, and members of the subcommittee. My name is Sandra Henriquez, and I am the Executive Director of the Boston Housing Authority. Today, I am here representing the Council of Large Public Housing Authorities, CLHPA, whose members manage over 30 percent of the Nation's Section 8 tenant-based assistance, primarily in large urban areas. Thank you for allowing me to testify before you on the Section 8 Rental Assistance Program and the administration's proposal to block grant Section 8 rental vouchers to the States.

The Section 8 Rental Assistance Program is a great success by any measure. Not only is there no evidence that block granting voucher funds to States will improve the program, there are indications that this proposal will undermine Section 8 success. National utilization rates have increased 6 percent over the past year, from 89 percent to slightly now over 95 percent. If this trend continues, the average national lease-up rate could reach 97 percent by July of this year. And in Boston our success rate increased from 85 percent to its current 100 percent. This success indicates strongly that we will not continue to see large amounts of unspent funds as in recent years, and the program does not need significant reform. Devolution to the States, however, will undermine this success.

Section 8 rental vouchers are an important resource for families with extremely low incomes. It has been estimated that less than a quarter of those eligible for vouchers and other forms of low-income housing assistance actually receive any form of aid. The remainder live in substandard housing, double-up with family and friends, pay more than 50 percent of their income for housing or are homeless. Section 8 rental vouchers help solve this problem for nearly 2 million households.

Unfortunately, this proposal would result in the program's serving fewer of the neediest families. The block grant proposal includes changes in income-targeting requirements and the evaluation factors for the program that will push States to serve higher-income families and support the lowest quality housing in poorest neighborhoods because this is all the program will be able to afford.

The current legislative proposals would enable States to divert voucher funds to State programs and possibly, depending upon how HUD defines supporting activities, could enable States to divert voucher funds to a range of nonhousing programs. States block grants would also add an additional layer of bureaucracy and cost to what is essentially a local program.

The block grant proposal erroneously argues that States will be more responsive to local markets than HUD, even though it is the local housing authorities that currently administer the program and develop and maintain relationships with local landlords. The cost of the additional layer of bureaucracy cannot be ignored. The evolution of the Massachusetts State Rental Housing Assistance Program, called the Mobile Rental Voucher Program, is illustrative of my concern with block granting the Section 8 voucher program. The administration's budget calls for $100 million of Section 8 funds to be set aside for start-up costs, which instead should be used to support 15,000 vouchers for families in need.

The bill also adopts a most disastrous provision from the 2003 Omnibus Appropriations Bill that caps the amount of earned administrative fees a public housing authority can maintain to use for low-income housing purposes. The Boston Housing Authority currently uses this earned administrative fee to fund a variety of low-income housing programs, including a security deposit program for homeless families, lease-up counselors who assist homeless families in Boston to find housing; bridge loans for HOPE VI and redevelopment activities to support operating costs of public housing, since these funds have been severely cut in recent years.

There is interconnectedness among these housing programs. The flexibility to use this earned fee for a variety of low-income housing program is crucial to maintaining a cost effective, low-income housing strategy that meets local needs. Limits and caps on this funding, coupled with splitting the fee between two layers of bureaucracy, States and localities, will make it even more difficult to administer the program effectively.

And even though Section 8 is successful, we agree with the administration that the program could be even better if HUD were to provide localities with more regulatory flexibility to meet the changing needs in the local real estate markets. HUD already has the authority under the current law to make the program less complicated, enabling local housing authorities to use Section 8 funds more creatively, for things such as tenant counseling enhanced security and deposits improvements to ensure the quality of the Section 8 stock.

Another proposal that would help housing authorities better use Section 8 would be greater flexibility regarding the location of project-based units, the process of procuring project-based developers, and the number of units that can receive project-based subsidy in a building. All of those would go a long way towards creating more housing choices for needy families.

For all these reasons, CLPHA strongly encourages Congress to reject the proposal to block grant Section 8 rental vouchers to the States and, instead, please encourage HUD to grant more flexibility to housing authorities administering the Section 8 program so that we can better address the local housing needs in our communities. Thank you.

Chairman NEY. Thank the witness for her testimony.

[The prepared statement of Sandra Henriquez can be found on page 203 in the appendix.]

Chairman NEY. Mr. Hernandez.

STATEMENT OF TINO HERNANDEZ, CHAIRMAN, NEW YORK CITY HOUSING AUTHORITY, NEW YORK, NY

Mr. HERNANDEZ. Chairman Ney, Ranking Member Waters, members of the committee, I am Tino Hernandez, Chairman of the New York City Housing Authority. On behalf of Mayor Michael R. Bloomberg, thank you for this opportunity to testify about the housing assistance for needy families block grant proposal.

New York City has much at stake in your deliberations. The New York City Housing Authority is the largest public housing agency in North America, providing housing and direct-rent subsidies to 633,000 low- and moderate-income residents in the five boroughs of New York City. Our conventional public housing program comprises 345 developments, encompassing 2,702 buildings and 181,000 apartments which provide housing for 419,000 residents.

NYCHA's Section 8 program currently has 85,928 vouchers under contract. New York City administers one of the Nation's most extensive Section 8 programs. New York City is the Nation's third largest, after the entire States of California and Texas. In New York City total, we have approximately 105,000 Section 8 vouchers. NYCHA contracts 85,928 vouchers serving 214,000 residents, and we have 27,694 participating landlords. Our sister agency, Housing Preservation and Development, oversees 19,000 vouchers, with 5,300 participating landlords.

New York City's Section 8 program is among the most successful in the United States. NYCHA's voucher utilization rate is currently at 98 percent, and HPD is now at 100 percent. Local control, at the local level, is the key reason for New York City's success in administering the Section 8 program. Housing conditions vary widely from city to city and localities best understand their housing needs. No State agency can know a local market as a city or locality can.

In New York City, we have been able to tailor the Section 8 programming to meet the unique needs of our real estate market. We are able to set fair market rent levels by neighborhood, acknowledging the varying rents within New York City communities. We are able to be responsive to the needs of landlords with the goal of gaining greater participation in the Section 8 program. We have streamlined the processing of rent payments to landlords. We have shortened the approval process for Section 8 transfers and rentals. We have automated inspections, introducing technology. We have automated rent calculation systems, minimizing errors. And we pay holding fees to landlords for apartments for processing time.

The scarcity of affordable housing in the New York City market is dramatic. The New York City vacancy rate is among the lowest in the country. Within the context of local control, NYCHA has been able to work closely with Mayor Bloomberg and its sister housing agencies to ensure that the City's priorities are addressed. NYCHA's Section 8 program is an integral part of the New York City's strategy to deal with special populations, such as victims of domestic violence and homeless families, and we do that on a regular basis.

New York City, working in collaboration with the Mayor's office and also with HPD, has also unveiled an important major housing program which will result in the production of 65,000 additional units of affordable housing over the next 4 years. The Mayor's program will preserve existing housing stock, produce additional housing, and identify development opportunities, all of which are supported by the Section 8 program's role in preserving the existing housing stock.

Under the Section 8 block grant proposal, we have concluded that we would be adding an unnecessary and costly third-party administrative layer. HANF will not improve the delivery of tenant-based housing assistance. It would only complicate it, and the distribution of Section 8 vouchers will become more problematic. We believe that this particular proposal could disrupt the success of New York City's program, and we strongly believe that the Section 8 program should be administered at a local level.

Thank you.

Chairman NEY. I thank the witness.

[The prepared statement of Tino Hernandez can be found on page 210 in the appendix.]

Chairman NEY. We will move on now to Mr. Inglis.

STATEMENT OF JAMES M. INGLIS, EXECUTIVE DIRECTOR, LIVONIA HOUSING COMMISSION, LIVONIA, MI, AND SENIOR VICE PRESIDENT, NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS, WASHINGTON, DC

Mr. INGLIS. Good morning, and thank you for the opportunity to testify before the committee, Mr. Chairman and Ranking Member Waters. It is a pleasure to be before the committee. My name is Jim Inglis, and I am Executive Director of the Livonia, Michigan Housing Commission.

The Livonia Housing Commission assists approximately 1,500 families with affordable housing and community development programs. I am here today representing the National Association of Housing Redevelopment Officials, and I currently serve as their Senior Vice President. NAHRO is the oldest housing community development organization in the United States, having over 19,000 members.

There are several concerns I have regarding the HANF proposal which we would like to outline today. First of all, the funding shortfalls. The major concern in this program is that in the out years, the next 5 years, housing assistance payments will be reduced by $1.1 billion to $1.8 billion over the next 5 years. The reason is that the Consumer Price Index rate of inflation and HUD's automatic adjustment factors will not keep up with rents increasing in the Section 8 market. In addition, the administrative fees are proposed to be capped at 10 percent of the housing assistance payments. It is our concern that would represent a 13 percent cut for most housing agencies across the country, thereby reducing their ability to provide needed housing assistance and counseling to Section 8 clients. That would reduce the landlord outreach, housing counseling, and support for local residents.

What would happen if these funding shortfalls take place in the funding out years is that the States will be faced with several very serious questions. First of all, how would they increase rent burdens or reduce the value of the voucher to make sure they are assisting a sufficient number of families? Two, will they use State revenue to make up that shortfall? I doubt it, given the situation now in most States. Or, three, which is likely the most palatable option for the States, would be to reduce assistance to low- and moderate-income families under the Section 8 program, which these charts provide information on.

The issue of cost containment has always been one Congress has been concerned about, and one thing that should be acknowledged is in the 2003 appropriations bill, we now have a way of making sure we reflect the actual cost of housing and the number of units that are leased in the market based on quarterly information we are providing to the Department of Housing and Urban Development. This has, in fact, eliminated the large recapture issue that Congress was concerned about in the past. So in terms of cost containment, I applaud Congress for that work they did in the appropriations bill to now accurately reflect the cost to administer the program.

There is one other concern we have, relative to grandfathering, if it goes to the States. The States are required to administer the program under the current rules. However, there are provisions within HANF that say if there is insufficient funds to operate the program, there is a loophole for the State to reduce that assistance, which no longer provides a safety net for residents but basically a trapdoor. These residents will no longer be able to receive assistance under the program.

The current Section 8 Housing Choice Voucher program is highly successful, and I think that is one point that needs to be made. The Millennial Housing Commission Report, mandated by Congress, indicates the program is flexible, cost-effective and successful. Housing choice voucher leasing rates have continued to increase. In the year 2000, it was 92 percent, year 2002 it went up to 94, and HUD's own projection is by the year 2004, it will go up to 96 percent, and the charts being put up reflect this. The concern we have is that 96 percent is an excellent utilization rate and leasing rate, and only in Washington does HUD determine that to be insufficient or a failure by the local housing agencies. Again, this is a highly successful rate under the voucher program.

Basically, the program is already a block grant. It is a block grant to the local unit of government, the lowest local unit of government, which really is the most practical administrative agency within the State. The local unit of government is involved in local planning. They have relationships with landlords, local decision-making, local accountability, they can actually address local issues relative to the market, and so really we have a block grant program that goes to the local unit of government which is most effective.

The under utilization issue is really not an issue. As you can see, since the initiation of QHWRA, leasing rates have continued to go up along with voucher utilization and the number of families being served in the program. Under HANF, we expect these numbers will continue to go down in the future.

Flexibility? The members of the committee have asked about flexibility. We believe HUD has the tools now to provide regulatory relief to smaller agencies. There was an August 2002 interim proposed rule that has not been released by the Department, we encourage them to do that for smaller agencies. Also, complete the project-based voucher rule, which has been recently withdrawn. Timely reallocation of unused vouchers. There are some agencies that can't use vouchers, and if they would timely reallocate those to other agencies, that would greatly assist the program. And, lastly, give us the flexibility to work within a changing market condition, to adjust fair market rents to make the program work.

Again, the biggest recommendation that I have from my agency is we have 752 vouchers, we have a waiting list of 6,000 people, and there is just not enough supply for the demand people have for the Section 8 Housing Choice Voucher program. So I encourage more resources that would go to the local communities to assist in the program.

Thank you very much.

Chairman NEY. I thank the witness for his testimony.

[The prepared statement of James M. Inglis can be found on page 216 in the appendix.]

Chairman NEY. The next witness.

STATEMENT OF KEVIN MARCHMAN, EXECUTIVE DIRECTOR, NATIONAL ORGANIZATION OF AFRICAN AMERICANS IN HOUSING, WASHINGTON, DC

Mr. MARCHMAN. Chairman Ney, Ranking Member Waters, my name is Kevin Marchman, and I am the Executive Director of the National Organization of African-Americans in Housing.

This morning, we have heard from voucher users, local program administrators, industry leaders, apartment owners, resident leaders. All have said this proposal is not needed and perhaps unwise. All have said improvements need to be made. HUD agrees. I suggest over a year's time that the administration convene a representative group, as they have recently done with this HOPE VI Program, and discuss and suggest needed changes and improvements to the program.

The Section 8 Voucher Program is the bedrock of the Nation's affordable housing program, not the States'. Each administration seeks to make improvements to this program, to make it more flexible, more responsible. Indeed, when I was responsible for the administration of this program, we preliminarily explored the option or the possibility of block granting this program. We rejected it for some of the same reasons you have heard this morning. Again, I believe that HUD is earnest in wanting to improve the Section 8 Voucher Program. I believe the way to do that is to convene a group, perhaps a Secretary's task force, for the improvement of the Section 8 Voucher Program and report back to this committee in a year's time with administrative solutions.

Thank you very much.

Chairman NEY. I thank the gentleman for his testimony.

[The prepared statement of Kevin Marchman can be found on page 239 in the appendix.]

Chairman NEY. Mr. Molloy.

STATEMENT OF NEIL MOLLOY, EXECUTIVE DIRECTOR, ST. LOUIS COUNTY HOUSING AUTHORITY, ST. LOUIS, MO, APPEARING ON BEHALF OF PUBLIC HOUSING AUTHORITIES DIRECTORS ASSOCIATION (PHADA)

Mr. MOLLOY. Thank you, Mr. Chairman, my name is Neil Molloy. I am the Executive Director of the St. Louis County, Missouri Housing Authority.

Today I am representing the Public Housing Authority Directors Association, PHADA. PHADA represents over 1,900 men and women who serve as the executive directors of America's local housing authorities. We wish to go on record, and I will try not to repeat what everybody else has said, and that will make it a little bit difficult, but first you heard from a former member of this body, Representative Susan Molinari of the Millennial Housing Commission that the Housing Choice Voucher program is a success, and it is the linchpin for low-income families in the private housing market. The second recommendation from the Millennial Housing Commission asked for more funds on an annual basis. That is what is really needed to make the program work.

I want to talk specifically about one of the proposals in HANF. PHADA represents many of the smaller agencies that run programs of 250 units or less in the voucher program. There are some assumptions in this proposal about cost. These programs represent about 7 percent of the total program but they are very critical to the local market in these small towns and rural America. These programs were specifically designed to deal with many problems with senior housing, people who are on fixed incomes, receive small pensions or small Social Security payments. And if the local rural community and that housing authority did not have these vouchers, you would have a terrible housing crisis in these communities. HUD should just deregulate the small housing authorities, stop calling them a burden, because they are not, they are a very valuable asset to the small towns of America.

As a former member of the Missouri General Assembly, with nine years of service on the Appropriations Committee, I served with Representative Clay, I have a little experience dealing with State bureaucracies and their capacity. In Jefferson City, bureaucrats like to treat legislators like mushrooms, keep them in the dark and feed them lots of manure. I imagine it's the same here. I think this proposal for HANF came out of a mushroom farm in the basement of HUD instead of the tenth floor. But what really scares me about HANF is the absolute chaos it would create in the program. Can you imagine having 50 different policies for a national housing program? This program has developed incrementally over three decades, and it works. It needs some fine-tuning, some minor adjustment, but the program really does work.

In his testimony before this committee, Secretary Liu 15

essentially told you that HUD is going to spend $15 million a year to continue the program, even if they switch it to the States, and they are not going to cut any employees. I think this is just creating a new level of bureaucracy and administration that is not needed, and I think it is a really poor use of taxpayers' money. As previously mentioned, the $100 million to ramp up the States could house almost 16,000 families for a year. That would be, in my opinion, a sin and a shame.

Finally, if the program is a block grant, it States specifically in Section 6(d)(2) that if there is not enough money, the States will have to make their best efforts to fund all the current voucher holders. Well, in my State, Missouri, the General Assembly is meeting today to cut teachers, to cut State employees, to cut social programs, health programs, education programs. They do not have the capacity. What will happen if this grant goes forward, if HANF goes forward, States will use the money like they have used the tobacco money, they will substitute it for declining general revenues whenever they have a problem. Housing is not the first priority in the State of Missouri, and I don't believe it is the first priority in any of the States.

Finally, HANF will mean a real rent increase for residents. What I am talking about is when you go from adjusted income to gross income to base your rent on and you go from $25 to a minimum of $50, that affects the people who are on the fixed incomes and the very lowest income, and it also affects people who went to work. Because a TANF check or a Social Security check is gross income. A paycheck is not gross income, it's net income. So we are going to set our rents on the gross income, which is unfair to these working families.

Finally, if the program is not broken, please don't break it. When HUD came to you and said, we can't regulate this program, it's too complicated, it reminds me of the old cartoon character Pogo, and his famous words, "We have met the enemy, and it is us." when this body, in 1998, with the former Chairman of the committee, Representative Lazio, passed QHWRA, the preamble it said the purpose of the bill was to deregulate well-run housing authorities. Quite frankly, that has not occurred. It should be the responsibility of this committee to ensure that HUD does that.

We know how to do the programs. If we could make things a little simpler, a little less complicated, the program would work fine, but it definitely needs more appropriations. We have 6,000 vouchers, we are at 102 percent utilization and we have 6,000 people currently on our waiting list. And we only open up our waiting list about every 2-1/2 years to allow people to come on to the list on a lottery system.

So there is a great demand out there, and it is time for us to do something. Thank you.

[The prepared statement of Neil Molloy can be found on page 243 in the appendix.]

Chairman NEY. I want to thank the witnesses.

I am just going to make one statement, and then I will yield to members who will want to ask questions, and we have a time factor here.

I am torn on this now. At one point in time, I think everybody was running to the Capitol and saying it's broke, the money is being taken back by the Congress, and we have to do something about it. Now, all of a sudden the money is not necessarily brought back through the appropriations process. But that doesn't mean that some things aren't, I don't want to say maybe two broken legs, but maybe a broken arm along the line.

I apologize for having to come in and out, I had two commitments, but I have the testimony, and some of the things I'm interested in hearing are what you think are some problems. I will get away from the word broke, but there are some problems. I think at the end of the day, if individuals, for whatever reasons, the States, suspicion of the States, whether it will work or not, whether a State will opt in, the housing authorities go away and all of a sudden the States say, here, take it back, and now, you recreate it. I can give you a whole bunch of scenarios that are alarming. On the other hand, HUD itself has pointed out that monies were returned, they weren't used. Now, because of an act of Congress they aren't returned, but does that mean the system doesn't need some type of repair?

I hope as this progresses, that advocacy groups, the housing authorities, tenants, the large housing authorities, the small, the medium-sized, the rural, the urban can get together. And if there are admitted problems out there, could come together with some consensus of how those are repaired or fixed. So maybe the patient doesn't need open heart surgery, but maybe you need to do some exploratory. So I understand where you are all coming from, but I hope down the road a lot of ideas can be jelled around to see what happens at the end of the day.

So I appreciate your testimony, and with that, I will defer to the Ranking Member, Ms. Waters.

Ms. WATERS. Thank you very much, Mr. Chairman.

We were just talking about what we could possibly do to offer some alternatives to this block granting. I am opposed to it certainly, but I think as we move to fight this idea, we do have to come up with a few things that we could do.

Let me just raise these questions. First of all, I think there needs to be more money. I personally would like to see money to help offset the capital cost, particularly small landlords with certain number of units, et cetera. It seems to me that when you have to put on a new roof or do some capital repairs, that perhaps we should try and offset those costs in some way. I don't know.

Someone mentioned here today, the question about the inspections process and some other things. I think we have to keep in mind that we cannot and we should not have slum properties, and we have to make sure that they are inhabitable, they are livable, they are a good environment to raise children and families. Is there anything in this area that you consider unreasonable, that could be changed or that could be looked at in a different way as it relates to the inspection process?

I don't know what is required after each family moves out, what the landlord is required to do. Is that reasonable? Are there complaints of any of the landlords relative to the amounts of monies that they are mandated to spend? I guess that would be for so-called rehab, upkeep, et cetera? Is there any room there for discussion?

Mr. INGLIS. Yes, through the HOME program there is a rental rehabilitation, where they can take low-interest loans to assist in the rehabilitation of the property so we can facilitate working with landlords in that area. We have done a lot of work with our landlords on lead-based paint issues, asbestos issues, and we continue to work with our landlords on local housing inspection ordinance issues. So there are a lot of different programs that we can work with our landlords to mitigate some of the issues relative to housing quality.

I concur, housing quality is the key to the program. We want to make sure we are housing people in safe and affordable housing, but we need to make sure we work with our landlords, we have good partnerships with our landlords. We meet with them on a regular basis to make sure we understand their needs and what we can do for them. And I believe there are Federal programs at our housing agency, because we are a housing and community development program.

Ms. WATERS. Do cities set aside any CDBG or HOME or any of those monies for the upkeep of any of these properties? I don't even know if that is appropriate.

Mr. INGLIS. I don't think the Department has set aside, but we, as a local agency, in putting together our consolidated plan or our agency plan could do so in making sure that we look at these resources and make some programs available for the local landlords, especially the smaller landlords, as you are concerned with.

Ms. WATERS. Any other thoughts? Thank you.

Ms. HENRIQUEZ. If I might. In Boston, we have been talking with other housing agencies who also administer Section 8 vouchers when we do orientations with our landlords about what is expected, what are the housing quality standards they have to hit, we then array for them programs they might go after if they want to get into the program but need a little help on the capital side. And, in addition, we have been working with the States to try to pilot a program to provide an incentive for particularly smaller landlords to come into the program.

For instance, a repair that needs to be done to a hot water heater. Is that worth a $300 advance? Is there something we can do in the short-term that gets them over the hump to meet the quality inspection they have to do through? So we are looking at those kinds of incentives to help people come into the program who might otherwise be on the fence?

Mr. MOLLOY. Some of the comments from the gentleman from the Multifamily Council about streamlining the process could work. You have to be careful on how it is done. You have to make sure the quality is there in the inspection process.

One of the other problems that comes up, we are a jurisdiction, in St. Louis County, with 93 municipalities, and we have Section 8 vouchers all over the county. A number of the municipalities have local occupancy permits and their own inspection programs. So sometimes it becomes onerous for landlords at that level to go through our inspection and a municipal inspection. And if something is not fixed, and depending on the severity of the item, they have 24 hours to fix emergency items, or up to a further period of time to fix nonemergency items. We could do that.

I think the Millennial Housing Commission also had some recommendations.

Ms. WATERS. Could we look at memorandums of understanding where you have several jurisdictions that have various laws relative to inspections, upkeep, et cetera, so that if you get memorandums of understanding, one, hopefully ours, HUD could be the lead agency to determine?

Mr. MOLLOY. I think it would be very difficult for HUD to negotiate with the local communities because most of them are very suspicious of HUD for a lot of good reasons. But I believe you could probably do that on a local area. Maybe try to have joint inspection programs, try to coordinate that. But it does become a hassle for the landlords, and we try to speed that process up as much as we can.

Ms. WATERS. Well, that may be an area that we could take a look at.

Let me tell you what my concerns are. With the housing market being what it is, and landlords able to get market rents for their properties, I don't know why many of them are going to want to be in Section 8 at the rate that the market is performing. So I want to do something to give a little bit of an incentive.

So if each of you would think about that and feed that information back to us, I would be very grateful. Thank you.

Chairman NEY. Thank you.

Ms. Velazquez.

Ms. VELAZQUEZ. Thank you, Mr. Chairman. I would like to take this opportunity to welcome my Chairman from the New York City Housing Authority. Mr. Chairman, I am just really amazed to see that here in Congress some people are always advocating about flexibility and local control, but—and they have been good at staying on message. But it seems that on this legislation they lost that page.

I would like to ask the Chairman of the New York City Housing Authority, were you consulted when this legislation was being put together?

Mr. HERNANDEZ. No.

Ms. VELAZQUEZ. So they didn't consult with any of the people that are running this local authority?

Mr. HERNANDEZ. I always have to check with my staff. I was not personally consulted.

Ms. VELAZQUEZ. But we continually say that you people at the local level, you know best what works and what doesn't work. But when it comes to drafting legislation that supposedly makes the reforms that are needed for Section 8, we do not consult with you.

So let me consult with you, Mr. Chairman. The bill now pending before the committee will limit the fee to 10 percent of an agency's allocation. Can you tell me what uses the city puts to the fee, whether you believe a 10 percent ceiling on the fee is appropriate and whether you favor greater flexibility regarding the use of the fee by the local agency?

Mr. HERNANDEZ. We have been able to use the administrative fee really for a variety of purposes. One is that we have had—since I have been Chairman, one of the things that we have done is that we have put a lot of emphasis on the Section 8 program because we believe it is probably one of the best vehicles to be able to provide housing for low- and moderate-income New Yorkers.

So through the fees, we have been able to do all of the improvements that I have articulated earlier. We were able to—because I thought that it was important to really deal internally to create efficiencies that would—as business practices, pay landlords on time, to be able to facilitate the inspections, we moved to handheld computers so that we would be able to do inspections in a very timely or expeditious basis. We have used that.

In New York City we have always used administrative fees for other housing purposes. They have been tied to being able to round off a financial package for new developments or substantial rehab so that we would be able to put project-based Section 8 certificates within new housing as a way of expanding affordable housing in New York City.

So we think it is a key component of the program.

Ms. VELAZQUEZ. Would any of the other witnesses like to comment?

Mr. DUNCAN. Briefly, if you cap fees on reserves, all you are going to do is make people spend money that they would not otherwise spend, because they are not going to be able to accumulate funds for some other, greater purpose.

I expect the fees with 85,000 vouchers in New York is considerably more than the fees for 1,200 vouchers in Topeka, Kansas. It is going to take me a little more time to collect those reserves. So capping is really contrary to any type of entrepreneurship that you want to put into the program.

Ms. VELAZQUEZ. Thank you.

Mr. Duncan, in your testimony you said that HUD already has within its existent framework the ability to improve Section 8 through regulatory reform.

Given this, do you believe any legislative changes are necessary at this time?

Mr. DUNCAN. Well, one—in the real world, I am an attorney. One of the things I do is I represent wholesalers, so I am familiar with attempting to try to have business practices that reduce the number of points of contact. I understand HUD's desire to want to limit the number of points of contact that it has when it is dealing with housing authorities that have less than 250 vouchers.

But I don't think the State is the way to do it. I do think Congress should consider, maybe there is a de minimis level of vouchers, which in light of, if you looked at my testimony, I mean, you have got to have a law library to know what the heck to do to run these programs.

So there may be cooperatives between small housing authorities or contracting with other housing authorities that may be more effective and reduce the number of points of contact. But I suspect that Congress is going to have to set that limitation, whether that is 50, 100 or 249, I don't know.

But when I was on the school board in Topeka, Kansas we had interlocal agreements with other school boards to operate a vo-tech school. We couldn't have done it on our own, but with eight or nine other school boards, we were able to operate a vo-tech school. I think that is something that helps accomplish what HUD wants, reducing points of contact, makes things more efficient and yet keeps us on a local level with knowing local market conditions.

Mr. MOLLOY. Thank you.

In Missouri, one of our local housing authorities has gotten affected by this new rule and the cap on admin fees. They are over the 105 percent level, so they won't earn any fees. They have been saving up money for 25 years. They are planning to use the money to build a homeless shelter in Joplin, Missouri. Then the city would take that area where the old homeless shelter was, redevelop it for economic development, they would have a new shelter, you would have economic development in the city. But this rule that HUD imposed has really sort of put that on hold.

I think if you look at other Federal programs, and when they deal with indirect costs, a lot of Federal programs have indirect costs that are way in excess of 15 percent, and they don't have provisions for recapturing funds or requiring people to administer programs and not get paid for it. I think that provision that was put in the law last year was a mistake. It needs to be repealed.

We have used admin funds to build community centers in communities that have Section 8 tenants and public housing tenants, to provide education programs and sports programs. Housing authorities have used the money wisely. If they don't, there should be a local responsibility, and the appointing authority can appoint a new board and, you know, change the management.

Chairman NEY. The time has expired.

Mr. Watt.

Mr. WATT. Thank you, Mr. Chairman.

Mr. Marchman, you made my ears perk up when you said that HUD has a working group working on revising HOPE VI.

Mr. MARCHMAN. Yes.

Mr. WATT. That is news to me. I asked the HUD officials about it when they came over to testify, what they were doing to look at HOPE VI. The only thing I was aware of was that the President has recommended terminating HOPE VI.

Tell me what—I know this has nothing to do with Section 8, but do you know something I don't know?

Mr. MARCHMAN. I can't say that. But, I think it is 2 weeks ago or so, the assistant secretary convened a group of individuals to talk about the HOPE VI program and/or alternatives to the program.

It came as a surprise to many, inasmuch as public housing residents weren't invited or participated or were involved in that decision-making; that, in large part, the industry groups did not know. And while I don't speak for a——

Mr. WATT. Who was on the working group?

Mr. MARCHMAN. I can't tell you. I believe that there were individuals representing developers, people representing people in the tax credit markets, people representing, I believe, housing authorities, or at least one.

But, I believe—and as I said, I don't speak for HUD any longer—I think it was their attempt to be responsive to Congress in terms of looking at the HOPE VI program and alternatives to the program.

And my suggestion and my testimony is, a more——

Mr. WATT. I understood what you were saying. You were saying a working group for Section 8 vouchers would be appropriate too. So maybe they will follow that recommendation since we recommended a working group about 6 months ago for HOPE VI. So maybe they listen to these things.

Mr. Hernandez, one of the things that Mr. Martinez testified—or maybe it wasn't him, whoever came over to testify about this block grant approach on Section 8—was that it was going to give more flexibility to the States to contract with different providers to administer the Section 8 voucher program.

Did I understand you to say that New York City has two different providers, your department and something called Housing Preservation, and you have some Section 8 vouchers and they have some Section 8 vouchers?

Mr. HERNANDEZ. Correct. We have two housing agencies, the New York City Housing Authority, which is my agency, which is an agency that essentially manages all of the property of conventional public housing and, in addition to that, has a Section 8 program of over 85,000 vouchers.

We have another agency, our sister agency, the Department of Housing Preservation and Development, which is really the development arm of New York City. They handle a lot of the affordable housing development and they also have a program, a Section 8 program.

We work collaboratively. The HPD tends to have an approach with Section 8——

Mr. WATT. Well, let me—I just want to be clear on what you said, to clarify. So HUD is now contracting with two separate agencies in New York City?

Mr. HERNANDEZ. Correct.

Mr. WATT. Would there be any value, in your estimation, to—well, first of all, before I get to that, I assume they have some flexibility now to do that; otherwise they wouldn't be able to do that?

Mr. HERNANDEZ. Sorry? That HUD——

Mr. WATT. That HUD has flexibility to contract with different agencies to administer the Section 8 program now?

Mr. HERNANDEZ. Correct.

Mr. WATT. Would there be value, in your estimation, to having the State come in and have you and Housing Preservation start to bid against each other to run the Section 8 voucher program, so that one agency in New York would do it all?

Mr. HERNANDEZ. Congressman, I would essentially be echoing most of the concerns that have been expressed here already.

It has already been indicated that in New York State, for instance, the State is facing a major budget deficit. The language is uncertain about how the State would formulate this program. We would be concerned that resources could be diverted for other purposes, as well as that Section 8 assistance could be diverted within the State.

Moreover, it is our contention that it is really the locality of the City of New York that has the relationships with the landlords and that understands really the marketing trends within New York City.

Mr. WATT. My time is about up. I want to ask one more question. We have asked two panels now. I haven't heard anybody say they favor this. Even the State housing authority agency organization on the last panel said that they were indifferent about it. I guess they would be the beneficiaries of State administration. And they didn't even advocate.

Is there anybody on this panel who supports this?

Mr. HERNANDEZ. I would say that—as my esteemed colleague indicated, I do believe that HUD may have some legitimate concerns that need to be looked at, points of contact, and the regulatory environment, which I think, by the way, they can reform without this bill.

Mr. WATT. How do you administer a Section 8 program anywhere without points of contact? I mean, you have got to have points of contact. Someone is going to have to have points of contact with them, either the State has got to have points of contact with them——

Mr. DUNCAN. Congressman, you can streamline the number of points of contact.

Mr. WATT.—as between HUD and the number of points of contact. But somebody down the line is still going to have points of contact; otherwise, you are not going to have any supervision.

Mr. DUNCAN. You would have it. As long as you end up with a cooperative, or somebody who is close to the customer. Let us not forget, it is the customer, the tenant, the working poor, that we need to be most concerned about; start there and work back up the line. And once we do that, then we can have an effective, streamlined process by which to get these funds into place.

Mr. HERNANDEZ. For New York's City's purposes, we have an effective, viable model being the point of contact for HUD in New York City.

Mr. WATT. Thank you.

Mr. MILLER OF CALIFORNIA. [Presiding.] Mr. Davis.

Mr. DAVIS. Thank you, Mr. Chairman. Let me welcome all of you all, and I associate myself with a lot of the comments that frankly all of you have made, and the panel before you.

One of you made the observation that if the program is not broke, don't break it. It appears that this program is joining the long list of Head Start, Medicaid, and several other programs, including HOPE VI, that don't appear to be broken in a lot of ways, but that the administration wants to reexamine.

Let me focus on one specific problem that some of us are concerned about. It is what is going to happen to the money behind Section 8 if it is block-granted. Most of us have the old experience from our political science classes that when you block-grant a program, that typically the funding does not keep pace with, in this instance, rental costs, for example.

Can any of you address that? What do you expect to be the financial consequences in terms of a lot of States, in that they have this new burden thrust upon them, given the fiscal crisis a lot of States are facing now.

Ms. HENRIQUEZ. If I might, I would like to talk a bit about what happened in Massachusetts. About 20 or so years ago the State of Massachusetts had the foresight, and should be commended for starting its own State-like Section 8 program. And, it is now called, the Mobile Rental Voucher Program.

And at the time, it was keeping pace with the marketplace, vouchers were being used by residents; and over time, as the pressures on the State budget were beginning to catch up and the rental market in Boston, particularly, was heating up, those vouchers then no longer kept pace with their fair market rent.

The State then tried to contain the costs in a number of ways. First, they changed eligibility so that higher-income people could get vouchers, therefore, diminishing the amount of subsidy hit to the State. When that didn't work, because the rental market kept heating up and heating up, the State then decided that they would charge—would increase the percent of one's income one paid for rent from 30 percent to 35 percent.

And so numbers of people were then leaving the program. When that didn't contain costs, they then flatly decided to cap the program, so there was no growth opportunity at all. As real estate prices began to continue to escalate, more and more landlords were opting out of the program because they couldn't get the rents they wanted. Landlords wanted to help, they wanted these stable, ongoing incomes that came in from the program, but they could clearly make more in the marketplace or make more in the Section 8 program.

My agency went from 604 such vouchers several years ago, now down to just a little over 250 vouchers, or a decrease of 62 percent in the number of families that I can serve under that program.

Massachusetts now faces a projected $3 billion deficit. I hear 38 billion for California, so I think—but it is all relative; it is all local. So 3 billion for us is huge in the State. I am fearful that with block-granting Section 8 to Massachusetts, or to any State having the same sorts of hot real estate markets and deficit spending in their budgets, this program will also then die. It will help less and less people because it will not keep pace.

If I could just add one more thing—I am sorry. Fundamental to all of this is that there has always been historically a commitment on the part of the Federal Government for housing programs, especially to support low- and moderate-income families and individuals. We continue to take a walk from that Federal commitment on a moral and ethical level.

Mr. DAVIS. One of the things that I am hearing from all of you is that there is no significant support in the housing community for this kind of wholesale change in Section 8. A lot of you who work on these programs on the ground say there is no empirical need to make this kind of a wholesale change.

So it would seem fairly clear to me that what the administration is doing in some sense is trying to undercut the attractiveness of the program and trying to really lessen the political commitment to the program.

All of you kind of agree with that, that it is the underlying agenda? Nod your heads to that.

Mr. DUNCAN. I can't read that into it. I would assume that there is some effort to try to streamline and become more efficient and apply some more efficient principles. I think it is misleading, though, to use the term HANF, because it seems to imply something closely akin to TANF, and only 13 percent of my voucher participants are welfare recipients.

So this is not a welfare program and should not be viewed as such. It is a program to assist working poor, elderly who are on fixed incomes, and SSI persons, and particularly in my community, when we close State hospitals, persons who are mentally challenged that have no place to live.

Mr. DAVIS. Mr. Chairman, if you would indulge me for 30 seconds, I do want to pick up one area and get Mr. Inglis to focus on this.

One of the things that I have noticed with the Section 8 program is that it is disproportionately concentrated in urban areas, and that is a matter of common sense, I suppose, to some extent because of the lack of housing stock in rural areas.

But can you talk for a second about what strategies might exist to increase the rural penetration of Section 8?

Mr. INGLIS. I think the major concern with going to the State is how are the resources going to be allocated in the future? Are they going to get to the rural areas? Are they going to get to the communities where the local housing authority is the main housing provider in the area?

They are the one-stop shopping agency for public housing and for Section 8, and they have a variety of housing tools to address the needs in rural communities.

It is a concern of ours that with this allocation, reallocation of funding, some of the States may play politics with the reallocation, and they may end up going more to urban areas and not to some of the suburban and rural communities that have a high amount of need.

So your point is well taken, in that we are very concerned; especially, we believe that the rural agencies are probably going to suffer most with this proposal.

Mr. DAVIS. Let's assume a current baseline for a minute. Let's say for whatever reason we keep the program exactly as it is. What can be done within the context of the current program to increase the rural penetration?

Mr. INGLIS. I think the basic thing is getting back to the flexibility, using the tools that were provided by the Quality Housing and Work Responsibility Act of 1998 and implementing those.

Project basing is one. We still do not have a final rule on project basing.

We also do not have a deregulation final rule on small- and medium-sized agencies, which was proposed in August of 2002, and had very strong support by the Department. They reduced the comment period to 30 days because they wanted to get it on the street. It is still not on the street today. So there is no deregulation.

Mr. MILLER OF CALIFORNIA. The time has expired. Thank you.

Mr. Clay.

Mr. CLAY. Thank you, Mr. Chairman. Let me also thank all of the witnesses for being here to help us do our work. I really wish that Secretary Martinez was here; he was here a couple of months ago. And perhaps someone from HUD is here; they can report back as far as the transcripts of this testimony, and let him know that his testimony has been refuted.

He told us a couple of months ago that the reasoning behind turning over Section 8 voucher programs to the States is because of local housing authorities' deficiencies and inefficiencies in administering the programs. He said—claims that now almost half of the States administer Section 8 through vouchers. And so I find this testimony in contrast to his.

Let me ask, Mr. Molloy, who also hails from Missouri and who—we served together in the State legislature in Jefferson City. You made an interesting analogy of mushrooms and politicians. Can you go over that again for me?

Mr. MOLLOY. Well, I think most members of this committee have served in legislative bodies or in local government and have had that experience of a lack of information to make a policy decision.

And I think this current HUD administration has not been forthright with sharing that information with policymakers on a timely level. You need that information to make the correct decisions.

And I think HUD needs to share that information with this committee.

Mr. CLAY. With both of us having served in Jefferson City, how would you envision this program—this block grant being administered out of Jefferson City, the State capital of Missouri? What agency would get it? How would decisions be made? How do you envision that?

Mr. MOLLOY. Most likely it would be the Missouri Housing Development Commission, which has headquarters in Kansas City. They do the tax credit program.

To give you an example, about 4 or 5 years ago, they administered a Tenant-based Section 8 program. They gave it to local housing authorities, because they weren't doing an adequate job on their lease-up rates.

So they turned the Tenant-based program over to the local housing authorities. I think it would be chaos. I appreciate the competency of our local State housing finance agency, but I still think changing this program from the current Federal model to a State model would be an absolute disaster.

I think we would lose thousands of landlords if they had the prospect of having 50 different sets of rules, particularly the landlords that operate in a multi-State environment. It would just drive them absolutely crazy.

And I think it would also drive the tenants nuts with coming up with a new set of rules, and then having this overlap period of 6 years where you have the existing current voucher program and this new voucher program, having two different sets of rules.

We have gone through that before, when we switched the certificate program to the voucher program. I think everybody on this panel who has a Section 8 staff can tell you the headaches the staff went through during that conversion process.

Starting up a new program would be a disaster.

Mr. INGLIS. This proposal is what is best for HUD, in terms of administrative ease. That is not what it is about. It is about assisting people and do we want to continue with the Federal commitment of assisting low-income working families and elderly and disabled persons in our country. And this should not be about administrative ease for the Department.

This should be a well-thought-out program that continues to assist low-income people in this country and also looks at assisting more people in the future.

Mr. CLAY. That is a great point.

Mr. DUNCAN. May I comment very briefly? The irony is, HUD is still going to deal with us as a public housing agency. And there has been a lack of consideration about the interrelationship. I may have two lists, one for public housing and one for Section 8, but I am dealing with the same constituency. So I may be able to put them in public housing until they work themselves up the Section 8 line.

It is going to be less productive for the person of economic—who is in economic distress, needing housing, and HUD is still going to deal with us.

Mr. CLAY. Mr. Hernandez, tell us, does New York have a waiting list for Section 8 vouchers?

Mr. HERNANDEZ. About 146,000 people are currently on our waiting list.

Mr. CLAY. How do you envision the State of New York, if they were to get the block grant, how would they alleviate that waiting list through this program?

Mr. HERNANDEZ. I have expressed concerns about that. Part of what New York City does is, through our Section 8 program, we provide a priority preference to homeless families and victims of domestic violence as well as disabled individuals. And in addition to that, as part of our plan to expand affordable housing, we use Section 8 to deal with development of new affordable housing in substantial rehabilitation of buildings, which is part of the Mayor's plan moving forward.

Mr. CLAY. I thank you all for your answers, and thank you.

Chairman NEY. Ms. Velazquez.

Ms. VELAZQUEZ. I would like for—Mr. Hernandez, for you to expand on your Statement to—your answer to Mr. Clay. The 65,000 units of housing that the City of New York envisioned, how do you think it will be impacted by the block-granting of Section 8?

Mr. HERNANDEZ. The Mayor released a vision of a housing plan to create 65,000 units of affordable housing really by doing two things; one is to preserve housing, the other one is to expand housing throughout the city.

Part of the way that our sister agency, HPD, has done development in the past, and will continue to do it, is by utilizing Section 8 and being able to really round off the economic package to be able to deal with housing.

Moreover they use it for mortgage—to help with mortgage payments. They also help to really do—to do housing for people they move into apartments.

We are working—we have a revolving solicitation right now to offer Section 8 vouchers for anyone that is doing new construction or substantial rehabs as a way of being able to expand our Section 8 pool as well.

So it is an integral part of our plan, moving forward, as we do this.

Ms. VELAZQUEZ. Thank you.

Thank you, Mr. Chairman.

Chairman NEY. [Presiding.] I want to thank you. Any further questions?

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

I want to thank both panels for your time and indulgence and your time here in Washington. Thank you.

[Whereupon, at 12:30 p.m., the subcommittee was adjourned.]

THE SECTION 8 HOUSING ASSISTANCE PROGRAM: PROMOTING DECENT AFFORDABLE HOUSING FOR FAMILIES AND INDIVIDUALS WHO RENT—DAY 3

Tuesday, June 17, 2003

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

The subcommittee met, pursuant to call, at 2:07 p.m., in Room 2128, Rayburn House Office Building, Hon. Robert Ney [chairman of the subcommittee] presiding.

Present: Representatives Ney, Tiberi, Waters, Velazquez, Watt, Clay, Scott and Davis.

Chairman NEY. [Presiding.] The subcommittee will come to order.

I want to welcome the witnesses to the Hill and appreciate your testimony on this important issue. I also would just remind you that the lights will be activated. When you begin to speak, it will be green. Yellow means you have about a minute, and then red, we would ask you to summarize and complete your Statement. Also without objection, hearing no objection, any written statements you have will be part of the record.

Today, the subcommittee holds its third in a series of hearings to examine the current operation and administration of the Section 8 housing choice voucher program and review various proposals intended to make the program more effective and cost-efficient.

Since the 1970s, rental vouchers have been a mainstay of the Federal housing policy. Currently, the Section 8 housing voucher program supplements rent payments for approximately 1.5 million individuals and families. While the concept of the program remains sound, the program has often been criticized for its inefficiency. More than $1 billion is recaptured in the program every year, despite long waiting lists for vouchers in many communities.

Michael Liu, Assistant Secretary of Public and Indian housing at the Department of Housing and Urban Development, testified at the first hearing on May 22, 2003. His testimony focused primarily on the Administration's proposal entitled "Housing for Needy Families," or HANF. HANF would reform the Section 8 housing choice voucher program into a State-administered block grant program.

I will dispense with the rest of my written statement, and without objection make them part of the record because we are going to have a vote and I want to make sure you get your ample time. Then we will come back. I just want to say this is a very serious issue, obviously a contentious issue. I have introduced a bill at the request of the Department. We are having hearings in the Capitol and we fully intend to have hearings in different parts of the United States on this issue.

So with that, I will see if there are any opening statements.

[The prepared statement of Hon. Robert W. Ney can be found on page 280 in the appendix.]

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

I am glad to be here for this third in a series of hearings on the administration's Section 8 block grant proposal. This is an important issue that must be fully vetted from all angles. I thank the Chairman and Ranking Member for the thorough review of HANF and look forward to the testimony of today's witnesses. Over the course of these hearings, we have heard many concerns raised about the block grant proposal, and the indications are that there are more to come.

The history of these hearings has reminded me of Secretary Rumsfeld's discussion of known knowns, known unknowns, and unknown unknowns. By using the Secretary of Defense's words, I am not trying to compare housing block grants to the war on terrorism. But for tenants with nowhere else to go, this is very much a matter of survival. We began with the known knowns, the concerns which we agree are likely to come to pass. HANF will likely result in lifetime limits on benefits. It will create an unnecessary and costly extra layer of bureaucracy, severely limit the number of new families brought into the program, and splinter the Section 8 program into 50 individual State programs.

Then, we heard from witnesses on some of the known unknowns, the concerns for which there are no answers. Will HANF reduce the number of families currently receiving benefits, due to the eroding value of block grants? Will it eliminate the flexibility of vouchers? Today, I am interested in hearing about two more of these known unknowns. First, will block granting dampen landlord participation in the program? Currently, HANF includes no assurance of continued funding of existing vouchers from year to year. It also gives States the authority to cut the subsidy level of vouchers and place lifetime limits on benefits, leaving Section 8 families with nowhere to live. Wouldn't this force landlords to undergo lengthy and expensive legal eviction processes for each of their tenants, and thereby discourage their participation in the program? The Administration has failed to adequately weigh in with answers.

Second, how do we know that in a time of fiscal constraints, the Section 8 block grant will actually be used for housing? What is to prevent a governor from playing favorites with the vouchers and rerouting them to different neighborhoods, opening the door to corrupt mismanagement of the program? Are there safeguards to prevent such an occurrence? The unknown unknowns are out there waiting to throw additional barriers in the paths of tenants and landlords. By the time they are discovered, they will have already done their damage. Is that a risk we want to take, or should we just accept the one thing I know for sure: HANF will not work.

When looked at from this point of view, this hearing begins to take on the feeling of a work of Dr. Seuss. And as happens in all of his work, I fear this proposal has the potential to end with a move from the sublime to the ridiculous.

Thank you, Mr. Chairman.

Chairman NEY. I thank the gentlelady for her statement.

Mr. Scott of Georgia?

Mr. SCOTT. Mr. Chairman, we have so many panelists, I will just move on to the panel.

Chairman NEY. I want to thank the members and introduce the panel. Conrad Egan is the Executive Director of the National Housing Conference, having previously served as Executive Director of the Millennial Housing Commission. He is currently the Chairman of the Fairfax County, Virginia Development and Housing Authority. Howard Husock is the Director of Case Studies, Public Policy and Management at Harvard University's Kennedy School of Government. He is also a research fellow at the Kennedy School Taubman Center for State and Local Government. Currently, he is the Director of the Manhattan Institute Social Entrepreneurship Initiative.

Bruce Katz is a Vice President and Senior Fellow at the Brookings Institution here in Washington, D.C. He is the founding director of the Brookings Center on Urban and Metropolitan Policy. Prior to his appointment at Brookings, Mr. Katz was chief of staff to Henry Cisneros, former secretary of HUD. Jill Khadduri is a principal associate at Abt Associates, Incorporated, a social science research firm based in Cambridge, Massachusetts and Bethesda, Maryland. From 1988 to 2000, she was the Director of Policy Development at HUD's Office of Policy Development and Research.

Dr. Ed Olsen is a professor of economics at the University of Virginia in Charlottesville, Virginia. He has been involved in housing policy analysis since the late 1960s and has served as a consultant to HUD during five administrations. Dr. Olsen has published extensively on the effects of public housing, housing allowances and rent control. The last panelist is Margery Austin Turner. She directs the Urban Institute's Metropolitan Housing and Community Center here in Washington, D.C. She is a nationally recognized expert on urban policy and neighborhood issues, with much of her current work focusing on the Washington metropolitan area.

I want to welcome all the panelists and we will start with Mr. Egan.

STATEMENT OF MR. CONRAD EGAN, PRESIDENT AND CEO, NATIONAL HOUSING CONFERENCE, WASHINGTON, DC

Mr. EGAN. Thank you, Mr. Chairman. It is a pleasure to be here today. As you indicated, I am the former Executive Director of the Millennial Housing Commission, and I will speak principally today from that standpoint. The Millennial Housing Commission was created by Congress a short while ago, which appointed its 22 Commissioners and its co-chairs, former Representative Susan Molinari and Dick Ravitch, and asked the commission to come back no later than May 30 of last year with a report on how particularly this

Congress, but also other parts of the Federal government could do a better job to support good housing for all Americans. We did produce our report on time and within budget. I hope that the comments I will make today will be some indication of the return on investment that the Congress made in the commission.

One of the things that the Commission was asked to do and which I will focus on today is to examine whether the existing programs of the Department of Housing and Urban Development work in conjunction with one another to provide better housing opportunities for families, neighborhoods and communities, and how such programs can be improved with respect to such purpose. I am quoting, Mr. Chairman, from the statute. The Commission responded in many ways to that charge.

One of the programs that they focused on was the Section 8 housing assistance program. I will repeat the recommendation that the Commission put forward. It is under the title "Expand and Strengthen the Housing Choice Voucher Program to Improve the Access of Extremely Low-Income Households to the Private Housing Stock." If I could quote from the introductory part of that recommendation: Since the 1970s, the housing voucher program has effectively assisted millions of lower-income renters, particularly extremely low-income households, who were most likely to have severe affordability problems and/or live in inadequate housing.

Because the program is flexible, cost-effective and successful in its mission, the Millennial Housing Commission believes housing vouchers should continue to be the linchpin of a national policy providing very low-income renters access to privately owned housing stock. In addition to that, the Millennial Housing Commission recommends appropriation of additional funds for substantial annual increments of vouchers to address the housing problems of extremely low-and very low-income families who lack access to other housing assistance. The Commission also pointed out the important relationship between the Section 8 housing assistance program and homeownership.

The Commission did go on, though, to recommend some improvements to the program. I will just briefly list them. The detail is in my statement and my colleagues I am sure will also have additional detail in addition to those who preceded this panel here today. First of all, it is important to improve utilization and success rates. Secondly, it is important to increase landlord participation, and I particularly appreciate Representative Velazquez's question in that area and I hope we can explore it when we have an opportunity. Thirdly, it is important to link the Section 8 program to housing production programs. It is important to link vouchers to work opportunity and self-sufficiency initiatives. It is also important to link vouchers to non-housing programs. As you can see the Commission liked this word "link." They used it a lot.

Finally, the Commission recommended allowing a more flexible use of Section 8 project-based units. I realize this hearing is not the subject of that particular item, but I would hope that the subcommittee could at some point devote some time and attention to that. This is what I call the mobility option for project-based subsidies in order to keep them in the housing portfolio and to provide for better preservation and revitalization of project-based properties assisted by the Section 8 program.

In conclusion, Mr. Chairman, let me summarize the Commission's position on the Section 8 housing assistance program thusly. First, the program works well in its current form. Second, it could be improved by implementing the above recommendations. And third, substantial annual increments of additional funds should be appropriated to better address the housing problems of extremely and very low-income families, and to increase opportunities for homeownership.

Thank you, Mr. Chairman.

[The prepared statement of Conrad Egan can be found on page 310 in the appendix.]

Chairman NEY. I want to thank you.

Mr. Husock?

STATEMENT OF MR. HOWARD HUSOCK, ALFRED TAUBMAN CENTER FOR STATE AND LOCAL GOVERNMENT, JOHN F. KENNEDY SCHOOL OF GOVERNMENT, HARVARD UNIVERSITY, CAMBRIDGE, MA

Mr. HUSOCK. Thank you very much, Mr. Chairman. It is a privilege to address the subcommittee once again.

The proposal to rename and restructure the Section 8 housing choice voucher program as housing assistance for needy families or HANF should be considered among the most promising housing proposals in many years. Its promise lies in the potential it holds for considering housing policy not in a vacuum, but in the context of domestic social policy more broadly, and thereby potentially encouraging long-term improvement in the life choices and prospects of those households whose rent is paid for by a housing voucher.

HANF, of course, sounds a lot like TANF, the core public assistance program, and well it should. For although largely unacknowledged in our recent focus on physical improvements to public housing or the drive to increase the number of housing vouchers actually utilized, the fact of the matter is that there are demographic overlaps, significant ones, between the public assistance population and the housing assistance population, such that common supervision at the State level is a logical new step. HUD reports, for instance, that among non-elderly, non-disabled heads of households receiving housing vouchers, 28 percent, that is 219,000 households nationwide, are also current recipients of TANF. Like TANF recipients, they are predominantly comprised of single-parent families. HUD reports that of 1.01 million non-elderly, non-disabled Section 8 households, 783,000, that is 78 percent, are headed by single parents.

Indeed, it is important to keep in mind when considering housing policy that although we hear frequent alarms, it is an exaggeration to say that we have a general housing affordability crisis in the United States. Affordability, rather, is a problem for the elderly, poor, and the disabled, and particularly single-parent families with children. HUD has reported indeed that only 8 percent of voucher holders are two-parent families with children.

Section 8 vouchers, moreover, are a means through which new single-parent families prone to long-term poverty, headed primarily by young mothers, can be established in the first place. Indeed, between April 2002 and April 2003, 13,600 new voucher holders, 6 percent of all new admissions to the program, were under 21 years of age. Such households are typically the focus of a wide range of social service interventions from job training to nutrition programs.

It is common sense, then, for our housing voucher policy to be considered and administered in the same context as our larger social policy. That is a policy which could be summarized since the welfare reform act as one of short-term assistance meant to enable long-term self-improvement and self-reliance. To that might be added discouraging those who are not economically ready to start their own households from starting them. The centerpiece change of the HANF proposal, the creation of the housing voucher block grant, and a shift in program administration from the local to the State level, may help us achieve those goals.

Local public housing authorities, which have historically administered Section 8, have a narrow mandate to provide safe and sanitary housing. But given who lives in our subsidized housing, the programs must be more broadly considered and aligned specifically with the goals which state governments are asked to implement, not just through TANF, but through other social programs as well, including the administration's current efforts to encourage marriage and two-parent families.

A block grant and state administration of Section 8 can set the stage for a period of housing policy innovation, much as we saw state governments experiment, many successfully, for instance HHS Secretary Thompson in Wisconsin when he was Governor there, with welfare-to-work programs in the early 1990s, even before the passage of TANF and in fact presaging that passage. Not that all States will move in new directions. Some may prefer the current approach and they will be allowed to continue it. But other jurisdictions may choose otherwise and seek to craft new housing policies in conjunction with broader state transitional assistance policies.

Such policies could indeed involve a time limit, or they could involve a declining public share of rent payment over the fixed lifetime of a voucher, as well as a combination with social services such as financial counseling and household management. Such approaches are not merely hypothetical. They have been in use effectively, for instance, by the Charlotte, North Carolina housing authority since 1993, in Congressman Watt's district, for some of its public housing tenants. State government, however, is more likely to have the capacity to undertake such policy innovations and far more likely to be inclined to do so if those considering social policy broadly are also those reviewing housing policy.

It is a mistake, in my view, to see the problems with Section 8 to date as lying mainly in the high turnback of unused appropriations or in the need to convince more property owners to accept more voucher holders. It is highly likely that most property owners in areas of reasonably strong demand will choose and continue to choose to avoid the complications that Federal program participation brings with it. It is far more likely for voucher holders to become concentrated in areas of weaker demand, and indeed program data from HUD again shows that in 11 of 25 cities that HUD surveyed, there are neighborhoods in which voucher holders constitute 25 percent or more of the population. I believe Senator Mikulski has called these "horizontal ghettos."

The southern suburbs of Chicago where Section 8 has been particularly controversial, I would hope that this committee might have hearings in that area if possible, have absorbed for instance 58 percent of the Cook County Housing Authority's vouchers. The majority of the voucher holders who have moved from the District of Columbia to its suburbs have moved to Prince George's County. In Philadelphia, 45 percent of voucher holders inhabit just two of the city's five major neighborhoods, South Philadelphia and Northeast Philadelphia. If you visit the south suburbs of Chicago, you will meet local elected officials and residents, many of them African American, who will express grave concern about this phenomenon, fearing the effects of such concentration on the social fabric of their communities.

As I wrote in the Manhattan Institute publication City Journal, in south suburban Chicago, with one of the highest concentration of voucher holders in the country, lower middle class African American residents complained. They thought they had left bad neighborhoods behind, only to find the Federal government is subsidizing bad neighborhood effects to follow them. Vikkey Perez of Richton Park, Illinois, owner of Nubian Notion Beauty Supply, fears that the small signs of disorder she sees with voucher tenants, un-mown lawns, shopping carts left in the street, are symbols of potential neighborhood undermine. "Their lifestyle does not blend with our suburban lifestyle," she told me. Kevin Moore, a hospital administrator and homeowner in nearby Hazelcrest, Illinois, complained that children in voucher homes went unsupervised and that boom-boxes played late in the night. "I felt like I was back on the west side," he said, referring to the neighborhood where he grew up and had worked hard to leave behind.

If voucher concentration is probable for economic reasons, it is important for program guidelines to encourage voucher beneficiaries to take steps to end or reduce over time their assistance. In fact, such encouragement is just as important in areas where voucher concentrations are low as where they are high.

[The prepared statement of Howard Husock can be found on page 313 in the appendix.]

Chairman NEY. I am sorry to have to interrupt. We have got 5 minutes left on a vote, so what we need to do is to go over and vote. We have two 5-minute votes after that, which will be 10 minutes, and we will be back. I apologize for the unpredictability of the votes, but we will be back. The committee will be in recess, returning upon the call of the Chair.

Thank you.

[RECESS]

Chairman NEY. The committee will come back to order. I think we had finished the time of Mr. Husock, and we will move to Mr. Katz.

STATEMENT OF MR. BRUCE J. KATZ, DIRECTOR, CENTER ON URBAN AND METROPOLITAN POLICY, THE BROOKINGS INSTITUTE, WASHINGTON, DC

Mr. KATZ. Thank you, Mr. Chairman, for the opportunity to testify today on the performance and potential of housing vouchers. I will just make four basic points drawn from my written testimony.

First, housing vouchers are a critical and generally successful component of Federal housing policy. They are unique among Federal housing programs in that they allow the recipient rather than the developer to decide where a family lives. This gives families greater choice in metropolitan rental markets, and by so doing enables them in theory to move to areas of growing employment and quality schools. Vouchers are therefore the only Federal housing program that recognizes the radical decentralization of labor markets that has taken place over the past 30 years, and they are the only Federal housing program that tries to replicate for low-income renters what all middle-class households enjoy, the ability to make decisions on housing in connection with decisions on jobs and schools.

Second, vouchers and the administration of vouchers are not perfect and need improvement. I emphasize four shortcomings in my testimony. Success and utilization rates are not where they should be. Landlord participation remains a constant challenge, as Conrad mentioned. Central city recipients, minority recipients, elderly recipients and recipients with disabilities all face special challenges in exercising choice in the market. And administration of the voucher program remains highly fragmented and insular: too much devolution in a sense, and too little accountability and competition.

My third main point is that the Administration's proposal to block grant vouchers to the States is not the right reform. I think this proposal has multiple fatal flaws. In my view, States are not the place to vest administration of the program. The voucher program is about markets and housing markets for the most part are metropolitan and in many parts of the country actually cross state lines. I believe block granting for the States would actually complicate, rather than streamline voucher administration, given the absence of an adequate delivery system in most States. The proposal would require the creation of a new layer of governance that does not now exist and could be a recipe for administrative chaos in the short term. I am also concerned that the shift to a block grant could substantially alter the method by which Congress determines funding for the voucher program. In the real world, rents rise, and any program that wants to leverage private sector participation needs to reflect that simple fact. In the event that block grant funding is not sufficient to cover the program's needs, States would probably take one of several actions: shift assistance to households with more moderate incomes; require recipients to pay a higher share of their income for rent; or limit the ability of households to use vouchers in low-poverty areas. All these funding scenarios could have a profound impact on which landlords participate in this program, since in the end what landlords want is certainty and predictability in program rules and funding levels.

Finally, I believe the effort to model voucher administration after welfare reform is misguided. The simple fact is that vouchers serve a much broader universe of households than welfare recipients. Only 13 percent of voucher recipients receive a majority of their income from welfare benefits. The preponderance of voucher holders either work or are elderly or have disabilities. The voucher program is in essence not simply the housing equivalent of welfare. If we want housing to work with welfare, we need a strong voucher program.

Fourth, I believe the voucher program does need reform. I recommend that Congress give voucher recipients the tools they need to exercise choice in the market. Information is one such tool. Why shouldn't every voucher recipient have ready access, easy access to information about rental housing vacancies, school performance and employment accessibility so that they can make informed housing decisions, essentially, the rental market equivalent of the multiple listing services used for homebuyers? I specifically recommend that Congress authorize and fund HUD to test the feasibility of making information on metropolitan housing markets and school performance transparent and accessible.

I also recommend that Congress try to match the administration of vouchers to the real geography of housing markets in metropolitan areas. I think Congress should experiment with a continuum of metropolitan approaches to voucher administration that include collaborative activities among local PHAs, the competing-out of administrative responsibilities to private sector entities both for-profit and nonprofit, as well as in some places the actual consolidation of separate agencies. I discuss this further in my written testimony. Again, I believe metropolitan areas, not States, are the right geography for thinking about housing policy and rental assistance.

So in conclusion, the voucher program has been a mainstay of Federal housing policy for the past 30 years. More than any other Federal housing program, it places power and resources where it belongs, in the hands of low-income renters. By so doing, it enables them to make decisions about housing, jobs and schools in a unified way. The program, and particularly the administration of the program, does need some improvement, but reform needs to proceed in a measured and responsible way to avoid making the cure worse than the disease.

Thank you very much.

[The prepared statement of Bruce J. Katz can be found on page 319 in the appendix.]

Chairman NEY. I thank the gentleman for his testimony.

Ms. Khadduri?

STATEMENT OF MS JILL KHADDURI, PRINCIPAL ASSOCIATE, ABT ASSOCIATES INC., BETHESDA, MD

Ms. KHADDURI. Thank you, Mr. Chairman. I appreciate the opportunity to be on this panel.

My name is Jill Khadduri and I work at Abt Associates, a national social science research firm. My company has done most of the basic program evaluation on the voucher program from the 1970s until now. We also provide technical assistance to voucher program administrators. Examples of research we have done recently that may be of particular interest to this committee include a study of voucher utilization rates, a study of voucher success rates, and a study of the circumstances that may bring a voucher program into conflict with residents of the neighborhood.

Mr. Chairman, the voucher program is not flawed. Its basic design is sound and it is an effective program for meeting the housing needs of low-income households, particularly families with children, the poorest households, and people with disabilities. At the same time, the idea of consolidating administration of the voucher program at the State level is very attractive. It would overcome some of the relative shortcomings of the voucher program.

However, it is essential that any such consolidation into a State block grant should have four features. First, the choice-based character of the voucher program must be preserved. Second, any flexibility for States to alter the structure of the subsidy formula, impose time limits, or alter the housing quality inspection should be carefully tested and evaluated before all States have such flexibility. Third, the program should have clear performance goals and reporting requirements, including preservation of the requirement to report household level data in standard format. Finally, the annual appropriation of funds for the program should be tied to maintaining current numbers of families assisted at adequate assistance amounts for each household, and a steady program growth to reduce the unmet need for rental housing assistance.

Let me turn to the results of some of our recent studies to tell you why I believe the voucher program is not in crisis. The utilization problem is well on its way to being solved. What we found when we did intensive case studies at 48 housing authorities is that many of the programs that had been using their voucher funds at low rate made substantial improvements once they got the word from HUD that funds not used would be taken away. We also found that many of the housing authorities with low utilization rates had staffing problems. The voucher program director had left and basic program functions such as issuing new vouchers had ground to a halt. An important finding of that study is that while it is relatively more difficult for housing authorities in difficult market conditions to use all their voucher funds, good program administrators find ways of doing so.

Success rates for families, as I am sure this committee knows, are not the same as utilization rates for local programs. Not all families who are issued vouchers succeed in using them, but a large fraction does so. Our study of voucher success rates at urban PHAs found an overall success rate of 69 percent in 2000. Success rates were high for all types of households. They were high for all racial and ethnic groups. They were high for people with disabilities and they were especially high for those households with the lowest incomes.

Vouchers are not harmful to neighborhoods. The isolated cases of neighborhood conflict that we studied in 1999 and 2000 showed that neighborhood concerns about vouchers can be avoided by program administrators who are alert for possible over-concentration of vouchers in small areas. They can be overcome when administrators act quickly when a complaint arises to find out the facts of the case and work actively with neighborhood groups. A common theme of this study is that good program administration is at the heart of the distinction between excellent and inadequate program results. The voucher program design is sound.

Having said that, there are some very good reasons to consolidate program administration at the State level and to give the States greater discretion over some features of the design of the program. The advantages of state-level administration are, first, States would be in a position to rationalize the administration of the program which now is fragmented into more than 2,500 entities. Many administer very small numbers of vouchers and are inefficiently staffed. Overlapping jurisdictions confound good program administration.

Our utilization study found that there were often not two, but three programs operating in the same geography, to the confusion of low-income families and owners of rental housing. Our neighborhood relations study found that overlapping jurisdictions made it difficult to avoid and to solve neighborhood conflict. It was hard for a housing authority to tell where another administrator's vouchers were being used. It was hard for a neighborhood group to know who was in charge.

Second, state administration would help overcome the barriers that currently exist to the use of vouchers across jurisdictional lines. Third, States would be in a good position to coordinate the voucher program with other programs that serve needy populations, welfare reform and services for people with disabilities, for example. Finally, if we are to experiment with changes to the basic design of the voucher program, States are the right level for this to happen. States have more freedom than the Federal government to experiment with controversial changes such as time limits. At the same time, they have more ability than local housing authorities to create carefully designed and evaluated experiments.

I am not going to respond directly to the Administration's proposal for a block grant called HANF, Housing Assistance for Needy Families. Instead, I will elaborate on the four features that I said at the outset were essential to any proposal that Congress might decide to enact in a consolidated administration at the State level. First, the choice-based nature of the program should be preserved. We already have a housing block grant. It is called the HOME program. Permitting States to attach vouchers to housing developments would make a voucher block grant no different from HOME and would threaten the budgets for both programs.

Second, while state administrators of a voucher block grant should have immediate flexibility in some features of program design, features that go to the heart of the program such as time limits and the program's housing quality standard and also the structure of the subsidy formula should be permitted only after being very carefully tested and evaluated rigorously. I recommend modeling this feature of any voucher block grant on the AFDC state waivers that preceded welfare reform. Individual States should be permitted to implement such changes only with careful experimental design and evaluation of results.

Third, legislation enacting a voucher block grant should include performance goals and measures and should mandate the continuation of the collection of household-level data on income levels, demographic characteristics, subsidy amounts and the location of housing units. This is essential so that Congress and the American public know what they are paying for. It is also essential for estimating budget levels for the program, what is needed to sustain the current program level, and what is needed for the program to grow.

Finally, the legislation enacting a voucher block grant should include explicit statutory language relating the program's funding level to housing needs. Only such a congressional declaration of intent and good data on households served and subsidy levels will overcome the fears of those who believe that a voucher block grant would mean the loss of the Federal commitment to meeting the housing needs of low-income renters.

Thank you, Mr. Chairman.

[The prepared statement of Jill Khadduri can be found on page 329 in the appendix.]

Chairman NEY. Thank you. I thank the witness for your testimony.

Mr. Olsen?

STATEMENT OF MR. ED OLSEN, PROFESSOR OF ECONOMICS, UNIVERSITY OF VIRGINIA, CHARLOTTESVILLE, VA

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

Given the current economic slow-down and the added expense of fighting international terrorism, it is clear that little additional money will be available for low-income housing programs over the next few years. The question is how can we continue to serve the families who currently receive housing assistance and serve the poorest families who have not been offered assistance without spending more money. The answer is we must use the money available more wisely. Research on the effects of housing programs provides clear guidance on this matter. It shows that tenant-based housing vouchers provide equally desirable housing at a much lower total cost than any type of project-based assistance under any market conditions. My written testimony summarizes the evidence.

These results imply that we can serve the current recipients equally well that is, provide them with equally good housing for the same rent and serve many additional families without any increase in the budget by shifting resources from project-based to tenant-based assistance. The magnitude of the gain from this shift would be substantial. The smallest estimates of the excess cost to project-based assistance imply that a total shift from project-based to tenant-based assistance would enable us to serve at least 900,000 additional families with no additional budget.

These findings have important implications for how the Federal budget for housing assistance should be spent. First, the money currently spent on operating and modernization subsidies for public housing should be used to provide tenant-based vouchers to public housing tenants as proposed by the Clinton Administration and by

Senator Dole during his Presidential campaign. If housing authorities are unable to compete with private owners for their tenants, they should not be in the business of providing housing.

Second, contracts with the owners of private subsidized projects should not be renewed. Instead, we should give their tenants portable vouchers and force the owners to compete for their business.

Third, the construction of additional public or private projects should not be subsidized. No additional money should be allocated to HOPE VI, there should be no new HUD production programs, and the indexing of the low-income housing tax credits for inflation should certainly be rescinded until a careful analysis of the cost-effectiveness of this program overturns the results of the recent GAO study.

Fourth, Congress should declare a moratorium on further project-based assistance under the housing choice voucher program until it can consider the results of a study that compares the cost-effectiveness of already committed project-based vouchers with tenant-based vouchers.

Finally, if Congress decides to convert the housing choice voucher program to a housing block grant to the States, it should require that the entire budget for the program be used for choice-based assistance. Evidence indicates clearly that States will devote the bulk of an unrestricted housing block grant to project-based assistance.

These reforms will give taxpayers who want to help low-income families more for their money by greatly increasing the number of families served, without spending more money or reducing support for current recipients.

The usual objections to exclusive reliance on tenant-based vouchers have little merit. Tenant-based vouchers get recipients into adequate housing faster than production programs, even in the tightest housing markets, and they are more cost-effective than production programs in all market conditions. Production programs do not have a perceptibly greater affect on neighborhood revitalization than tenant-based vouchers, and we do not need production programs to increase the supply of adequate housing.

Unlike other major means-tested transfer programs, housing assistance is not an entitlement, despite its stated goal of a decent home and a suitable living environment for every American family. This feature of housing assistance is a historical accident, and it is not defensible given the methods currently available for delivering housing assistance. It is impossible to justify providing assistance to some families, while denying it to other families with the same characteristics. If we provide housing assistance at all, it should be an entitlement to everyone who is eligible. If anyone is eligible, it should be the families with the lowest incomes.

Contrary to popular opinion, this does not require spending more money on housing assistance. It can be achieved without additional funds by shifting money from less cost-effective methods for delivering housing assistance to choice-based vouchers as soon as current contractual commitments permit, and reducing gradually the large subsidies received by current voucher recipients.

I urge the committee to take the bold steps necessary to serve the poorest families who have not been offered housing assistance, and I appreciate the willingness of the members of the committee to listen to the views of a taxpayer whose only interest in the matters under consideration is to see that tax revenues are used effectively and efficiently to help low-income families.

[The prepared statement of Ed Olsen can be found on page 351 in the appendix.]

Chairman NEY. Thank you.

Ms. Turner?

STATEMENT OF MS. MARGERY AUSTIN TURNER, DIRECTOR, METROPOLITAN HOUSING AND COMMUNITIES CENTER, THE URBAN INSTITUTE, WASHINGTON, DC

Ms. TURNER. Thank you, Mr. Chairman.

I would like to highlight three points from my written testimony that is based on research conducted in my center at the Urban Institute, but also by other researchers inside and outside of government.

First, the housing choice voucher program is tremendously effective and beneficial, although it is not working as well as it can and should be. We know how to make vouchers work better, and I suggest three strategies in particular that could improve outcomes for voucher recipients.

Third, there is no reason to expect that States would voluntarily adopt any of these promising strategies under a block grant. Instead, it seems more likely that they would implement untested changes that risk undermining the current success of the voucher approach. I would like to just elaborate a bit on each of those points.

The most important advantage of the voucher program is that it gives recipients the freedom to choose the kinds of housing and the kinds of locations that best meet their needs. As a result, many voucher recipients today live in healthy neighborhoods that offer social, educational and economic opportunities for themselves, but most importantly for their children. The current program certainly does not work perfectly in this regard.

First, vouchers have not been as effective in promoting neighborhood choice and mobility for minority recipients as they have been for white recipients. In addition, as others have said, there are some families who receive vouchers, but are not able to find a house or an apartment in which they can use that voucher. There are a lot of reasons for that problem, including shortages of moderately priced rental housing, tight market conditions, racial and ethnic discrimination, landlords who are not willing to participate in the program, and sometimes ineffective local program administration. There is a growing body of experimentation around the country and research that suggests three very promising strategies for addressing these issues and strengthening the housing choice voucher program. First, vouchers should be linked with mobility counseling and housing search assistance. In experimental programs, housing authorities that have partnered with nonprofits to help voucher recipients learn about neighborhoods available to them, track down homes and apartments for rent in those neighborhoods, and negotiate effectively with landlords have been able to open up more options for these voucher recipients, resulting in greater mobility to low-poverty neighborhoods and racially mixed neighborhoods, especially for families from distressed inner-city communities who might otherwise have difficulty in the private market.

Second, local housing authorities need to strengthen their landlord outreach and the services and incentives they provide to landlords who participate in the voucher program. There are several programs that have had success in expanding the options and choices open to voucher recipients by reaching out to landlords, listening to the concerns that they raise about the way the program operates, solving the red tape and other problems with program administration, and in some cases offering financial rewards to landlords who accept some of the most difficult to place families.

Third, HUD should be promoting regional collaboration and even regional administration of the voucher program. In most urban areas, the voucher program is administered by too many different local housing authorities, each operating in a single city or county. This fragmentation makes the program very confusing for families, but also for landlords, and it interferes with the portability feature that should allow families to move anywhere they want to in the region with their voucher.

Housing authorities in some metropolitan areas have addressed some of these issues by entering into mutual agreements that make their operations much more efficient and coherent. But HUD should be taking an active role in encouraging collaboration of that kind and testing the effectiveness of more comprehensive regional program administration.

Under a block grant, it is conceivable that some States might choose to implement one or more of those promising strategies, but it seems unlikely, absent any strong programmatic mandate or incentive system. Instead, it is more likely that the quality of local program administration would deteriorate, particularly given the fiscal distress that many States are currently experiencing. Some States might use a block grant's flexibility to implement untested innovations like time limits or reduced subsidy levels that could undermine the success we have seen with vouchers and worsen the housing hardships that low-income families face.

So instead of resolving the fundamental dilemma of inadequate funding for affordable housing in this country, a block grant would make housing hardship into a State problem, rather than a Federal problem, and it would open the door to untested program changes that could undermine the proven strengths of the voucher approach. Thank you.

[The prepared statement of Margery Austin Turner can be found on page 400 in the appendix.]

Chairman NEY. Thank you for your testimony, and all the witnesses.

I have just a couple of questions, and anybody can feel free to answer. Basically, I wondered if you considered HANF good, just kind of cut to the chase, is HANF good or is it bad? It is not a trick question. It is just a yes or no.

[LAUGHTER]

Is it good or is it bad? The other thing I would want to ask is, do we need to change the way we administer the program? If you want to start in either direction.

Mr. EGAN. Mr. Chairman, to answer your first question, I would say that given what my colleagues have said here today and what others have said, that without some very, very fundamental changes to the current proposal, that HANF would not be a positive development. Secondly, there are many things that can be done to improve the program. My colleagues again here today have stated many of them, and I will not repeat them, but I think the more that we can increase utilization, involve landlords, connect with service and self-sufficiency opportunities, that the greater the success of the program will be.

Mr. HUSOCK. HANF is good, because it will allow positive experimentation. We heard the same kinds of alarms sounded before the 1996 Welfare Reform Act, and things have worked out rather well in terms of encouraging self-sufficiency. The thrust of my remarks was let's line up social policy with housing policy. The populations are very similar, and let's allow States rather than housing authorities, which do not have the capacity to innovate, to take on that challenge.

Mr. KATZ. HANF is bad, because the State infrastructure is just not in place for administering housing, and housing is just not the same as welfare reform. There are radical differences here that we need to understand. Voucher reform is needed to make choice for all low-income recipients real by matching up housing, schools and jobs. I think the major issue is to try to have more of a metropolitan approach to voucher administration, which is the way markets operate.

Ms. KHADDURI. HANF is a step in the right direction, but as currently designed, I do not think it should be enacted. First, it does not preserve the choice-based character of the voucher program, if I read the draft legislation correctly, the introduced legislation correctly. I also do not think it has the explicit mandates for reporting of household-level information that would be essential in order to overcome the fears of many who have testified before this committee, that what we are looking at is a block and cut scenario. I think in order to avoid such scenarios, the Congress needs to continue to know how many families are assisted, who those families are, where they live, and how much subsidy money they are getting. I do not think that the legislation as currently drafted and introduced provides those guarantees.

I share the concerns of many others who have testified about such program changes as time limits. I think I would agree more with Mr. Husock that lining up vouchers with other elements of welfare policy is something that needs to be done, and we have not gone far enough in doing it. But I think we should approach it in small steps and carefully test those steps, as was the case before the enactment of welfare reform.

Mr. OLSEN. I would say that if HANF block grant money is not limited to choice-based assistance, it will be a disaster. But beyond that, I think we should have severe restrictions on the targeting on the poorest people, just as we have under the current program, with no discretion on the part of the Secretary to overrule that.

Ms. TURNER. HANF is a bad idea. It does not address the problems that we know exist in the voucher program, and it runs the risk of creating much more serious problems. If there is going to be a serious consideration of real reform of the voucher program, it should focus on getting the program administered more rationally at a regional, at a metropolitan level so that it works really effectively in terms of outreach to landlords and real housing choice for families.

Chairman NEY. Thank you, and welcome to Congress. It was three to three.

I yield to our ranking member, Ms. Waters of California.

Ms. WATERS. Thank you, Mr. Chairman. Let me just say to you, Mr. Chairman, that no one will be able to accuse you of not really doing a great job on Section 8. I think this is our third hearing, so you certainly have brought in a lot of voices for us to hear with all of these hearings. I appreciate the panelists who are here today.

I was particularly struck by some interesting research that was done by one of the panelists that happened to conclude that somehow housing policy encourages single-parent families and provides a subsidy to single-parent families, when in fact we should be teaching single-parent families how not to be single-parent families, and somehow this policy just exacerbates the problem. Also in this paper, it appears to be a lot of knowledge and information about the use of Section 8 vouchers by minorities who move into neighborhoods where they take their unsupervised children and play boom-boxes.

I would like to know if this extensive and very scholarly research that is contained in this paper also helps us to understand what happens, and first of all, are there whites that use Section 8 vouchers? I guess my question would be directed toward the scholar from the John F. Kennedy School of Government, Mr. Howard Husock. In your research, can you tell me about whites who use vouchers and what happens when they move into suburban areas? What does your research show about the size of their boom-boxes or anything else?

[LAUGHTER]

Mr. HUSOCK. Thank you very much for the opportunity to respond, Congresswoman Waters. I would just like to point out for the record that I was quoting minority homeowners who were expressing that concern. So it is fine to characterize my remarks as reflecting some sort of antipathy toward minority aspiration, but I can assure you that that is the farthest thing from the truth.

Ms. WATERS. Oh, I am sorry. I guess what I was asking, are you able to quote any whites about what happens when people with vouchers move into their neighborhoods?

Mr. HUSOCK. The particular essay that I wrote that included those interviews was based on interviews with minority homeowners because of the concern that I had for their property values. So I was not looking at white neighborhoods. But if white people were moving in and playing boom-boxes next to black people, that would be just as serious a problem in my opinion, nor would I assert that that could never happen.

Ms. WATERS. And how predominant is the playing of these boom-boxes? Do they play them all evening, on Saturdays or Sundays? What does your research show you?

Mr. HUSOCK. I think you would have to ask Mr. Moore of Hazelcrest, Illinois, who I quote as saying that. I am sure if you hold hearings in south suburban Chicago, and I hope you will, because you will find that there is a large group of African American homeowners who are very concerned about this program. He would be glad to apprise you of the extent of boom-box playing.

Ms. WATERS. In addition to your scholarly research on boom-boxes, could you describe more to me about the unsupervised children of people who have vouchers? How does it compare with people who don't use vouchers? Where is it predominantly showing up? Just how big is this problem of unsupervised children does your research show? What can you tell us about this?

Mr. HUSOCK. I was quoting one individual who said that.

Ms. WATERS. Okay. That is fine. Now, do you have any information in your research about discrimination that was described by one of the panelists who indicated that oftentimes minorities do not have the opportunity to use their vouchers in certain areas and in certain ways because they are discriminated against? Did you find that in your research?

Mr. HUSOCK. I did not research that topic. However, as you see in my prepared remarks, I examined HUD's research on concentration and inferred from that high degree of concentration that existed, that it may be inevitable that concentrations of Section 8 families develop because private property owners with other options appear to choose not to rent to Section 8 voucher holders, as evidenced by significant concentrations that we are seeing.

Does that mean that no discrimination occurs? It is probably an economic discrimination. It is probably discrimination based on not wanting to participate in Federal programs, but we are seeing significant concentrations. We can rail against that and say, well, we must do, as other panelists have suggested, more to counsel people to get into other neighborhoods and to open up those neighborhoods.

At the same time, I think we have to expect that that is going to be a very difficult road. That is why I welcome the possibility of social policy experimentation at the State level, because if you are going to have significant concentrations or you are going to have some individuals moving into areas in which they are pioneers, if you will, then I think it is very important that there be strong guidelines that align Section 8 policy with TANF and other social policy elements of the Federal government. This is because my concern lies with the aspirations of upwardly mobile families, particularly upwardly mobile minority families who I think are very concerned about this program, as I am sure you are aware.

Ms. WATERS. Are you aware that 48 percent of all the Section 8 vouchers are with whites?

Mr. HUSOCK. I don't really understand myself to be making a race-based argument. If you understand it that way, then I regret that, but that is certainly not my intention. My focus is on the economics of Section 8 and on the possibility of how we can encourage Section 8 families to themselves become upwardly mobile. I am suggesting that the TANF Act gives us a blueprint that we can apply to housing assistance. The fact that there has been friction and people express themselves perhaps crudely and I quote them, and I can therefore be open to caricature, well, I am sorry, but that is certainly not my intention here.

Ms. WATERS. Well, certainly I need to share with you that when a panelist appears before this committee, and particularly one from Harvard with a paper that talks about unmowed laws and shopping carts left on the street, and particularly quoting minorities and referencing minorities in relationship to unsupervised children and boom-boxes, that is racist, sir.

Mr. HUSOCK. I take strong exception to the idea that quoting African American homeowners making such remarks would be regarded as racist on my part. I am not quite sure how you jump to that conclusion.

Ms. WATERS. What is racist on your part is that you come in representing that you are from John F. Kennedy School of Government, without any respectable research, and you tend to use some isolated comments to describe a group of people. That, sir, is racist. Now, if you don't understand that, then we need to come up to Harvard and help them to understand the difference between using descriptions that are extremely negative, assigning it to one group of people without any data or research to support it. Yes, sir, that is racist.

Mr. HUSOCK. May I point out for the record that in the quotation that the Congresswoman is referring to, I do not refer to the race of the Section 8 families.

Ms. WATERS. Yes, you do in many ways.

Mr. HUSOCK. I refer to the race of the minority homeowners.

Ms. WATERS. We know how the language is couched, sir. We have been in this business for a long time, particularly I. And I understand exactly what you are saying and I do not like it. Now, you have a right to say it, but I have a right to tell you I don't like it. Thank you very much and I yield back the balance of my time.

Chairman NEY. The time has expired.

Mr. Scott of Georgia?

Mr. SCOTT. Yes, I certainly find the line of questioning very interesting. It could stand some illumination in the fact that for your information, the consumption of boom-boxes and the hip-hop music that corresponds with it now has now moved over from being a predominantly African American consumption to being a predominantly white consumption, thanks largely to Eminem.

[LAUGHTER]

At any rate, I hope that this very exercise and this line of questioning shows the seriousness of this issue and the concerns of this committee that we not cause any more aggravation with the Section 8 program. It is having enough difficulties as it is. I do recall the line of questioning. Our friend from Harvard appeared before this committee when we were doing all we could to make sure that we continued the HOPE VI. It just appears to me that there is a consistency in your testimony that tends to not be complimentary of what I think is the best direction of this committee, one, to save HOPE VI and reinstitute it, and certainly to save the good points of Section 8.

But I do find very interesting, you know, when you use research papers and you write, you may use a quote, you may go anyplace, but the intent of the research paper is not governed by anything other than the driver of that car. You are the driver of the car. It just seems to me that you may go out to find various things that may substantiate your position.

But at any rate, I just wanted to get some clarification of why you mentioned this in your report. As I have written in the Manhattan Institute publication City Journal in suburban Chicago, with one of the highest concentration of voucher holders in the country, middle-class African Americans complain that they thought they left the ghetto behind, only to find that the Federal government is subsidizing it to follow them. I am trying to figure that out. And then you go on to say that Vikkey Perez of Richton Park, Illinois, owner of Nubian Beauty Supply, fears that the small signs of disorder that have come with the voucher tenants, the unmowed laws and shopping carts left in the street, and could undermine the neighborhood. "Their lifestyle," she says, "does not blend with our suburban lifestyle."

The point I am trying to get at is why would you go there? What are you trying to accomplish there if it is not racially charged, because it is not the case in many of the instances where Section 8 has been used. I am just wondering why would you go there.

Mr. HUSOCK. I went to south suburban Chicago on the recommendation of those who were familiar with the Section 8 program, because I was told there was great concern about the implementation of the program there. I would just like to point out for the record that the scholar William Julius Wilson has talked about the declining significance of race and the importance of social class difference as an important determinant of overall social policy.

That is what you are seeing in south suburban Chicago. You are seeing people from different social classes involved in an unfortunate, somewhat acrimonious arrangement. I understand that this does not apply to every situation. The paper that you are holding in your hand was my written testimony. It is not a research paper and I did not represent it as such. But I think that a candid account of the potential for friction between social classes should be part of a reasonable discussion about Section 8 that need not be characterized as it has been.

Mr. SCOTT. I guess what I am trying to get at is what is your point? You continue to make, even to go further, even go beyond using quotes, you come to some conclusion that says if voucher concentration is probable for economic reasons, it is important for program guidelines to encourage voucher beneficiaries to take steps to end or reduce their need for such assistance over time. In fact, such encouragement is just as important in areas where voucher concentrations are lower. Again, go to the south suburbs of Chicago and you will meet minority, first-time homeowners criticizing Section 8 in terms far stronger than I would dream of using here for, in their view, supporting households which they see as having brought problems to their neighborhoods."

Mr. HUSOCK. Yes.

Mr. SCOTT. That just troubles me because I just think it is like finding a needle in the haystack. We have so many great stories about how Section 8 has revitalized communities and what a great program it is. It just seems to me that you tend to go out of your way here to bring some information and come to some conclusion. Again, just as the gentlewoman from California said, it is not just coming from somewhere. You are coming from, you are making a Statement from arguably one of the most respected institutions in America, next of course to Florida A&M University, which incidentally last year received more merit scholars than did Harvard.

[LAUGHTER]

But we really have got to kind of pull the cover over some of these kinds of statements so that we don't give the credibility to them. This is just a little bit overblown here. I just want to call attention to that. You are certainly free to come to any conclusions, but it just seems to me there is some rather narrow purpose on this here that we certainly want to make sure that we raise the temperature on and let you know that we certainly are not in accord with them on this committee, and we find that they are certainly not received in a positive way, because we know of too many very positive cases. I guess really to take African Americans and put these words into them to say, it really tends to goad us, certainly me, the wrong way.

Mr. HUSOCK. Candidly, I included that in my testimony because I thought that you would be interested, not because I was seeking to characterize it. I truly indeed thought that you would want to know honestly, from the bottom of my heart, I thought you would want to know what I believe was the suffering that I encountered in that room when I met with those homeowners. I thought you would want to know that and that you would care, and that is why I put it in there. If I have offended because of that, I truly regret that.

Mr. SCOTT. The point that I am bothered about is the fact that not that they are there, people can say things, but from a person in your position to come and to make a blanket concluding statement of negativity about this program. I do not question that. I mean, we do not know whether that happened or not. You say it happened, but the mere mention of using, from people who need the program the most to be the ones as the carrier of this, and with your credentials. So that is my point.

I yield back.

Chairman NEY. The time of the gentleman has expired.

I don't know about Florida A&M, but as a graduate of The Ohio State University, we have a warm spot in our heart for Miami.

[LAUGHTER]

Mr. Watt?

Mr. WATT. Thank you, Mr. Chairman.

We have a little private joke going up here about the Chairman passing over me. Let me see if I can get us out of the anti-Husock posture and on to another subject. I saved you last time you were here, Mr. Husock.

[LAUGHTER]

Mr. HUSOCK. I remember that, too.

Mr. WATT. I did you that favor last time.

Mr. HUSOCK. I wrote you that letter.

Mr. WATT. This is getting to be habit-forming here.

[LAUGHTER]

Let me applaud Mr. Katz and Ms. Turner for emphasizing a point, both of them independently, that I think is very important and I don't want to go unnoticed here. Both of you mentioned the need for Section 8 voucher recipients to have a broader base of information about available housing. I think Mr. Katz referred to it as a multiple listing of Section 8 availability.

I want to emphasize to the chairman and other members that in last year's housing bill, which did not go any further after it passed our community virtually unanimously, but there was a provision that sanctioned something called the socialserve.com program that has been used in Charlotte and some of the surrounding areas where they have come up with a really good listing of apartments that are available for low-income people, landlords who take Section 8 vouchers, all different kinds of criteria. They have developed this and we actually were able to get some assistance for the continuation and expansion of that program. It would be similar to a multiple listing of low-income housing availability.

Second, I want to, not to beat up on Mr. Husock, but to give Mr. Katz and Mr. Husock the opportunity to debate back and forth. Mr. Husock said that 28 percent of the recipients of Section 8 vouchers are also TANF recipients. For the life of me, I cannot figure out why you would take a 28 percent rate and say that that justifies treating the program in exactly the same way that you treat TANF. I would think that the 72 percent that is left might dictate how you treat the program, but that is not the point I want to make. Mr. Katz said that it is about 13 or 14 percent, but either way it is a fairly small fraction. It is not even one-third of the recipients are recipients of welfare.

So Mr. Husock, how do you get from even a 28 percent usage rate being welfare recipients to the conclusion that somehow the same model, even if we accept that the TANF model is a good model, which some of us do not accept, but if you accept that, I don't see how you get from 28 percent to the whole thing ought to be treated as a welfare program.

Mr. HUSOCK. A couple of things. First on the data itself, I specified 28 percent of non-elderly, non-disabled. If you include elderly and disabled, you get to a lower figure, as Mr. Katz did. So we are not really disagreeing about the figures.

Mr. WATT. Well, that even more makes me concerned about what you said.

Mr. HUSOCK. Okay. I got the idea that they ought to be aligned because 28 percent, or whatever percentage you take, is still over 200,000 families in this country. That is a lot of people.

Mr. WATT. Yes, but you have 800,000 people who are not. Why should they be following the model of welfare? They are not on welfare.

Mr. HUSOCK. What we do not know, I think, is whether it is fair to say that the TANF families are current TANF recipients. My concern is whether we are, as Congresswoman Waters pointed out about my concern about single-parent families, whether we are encouraging formation of families which are going to go on to have a lot of, you know, are prone to high poverty.

Mr. WATT. You are making a different point. What is the rationale for not doing that, Mr. Katz?

Mr. HUSOCK. Right. We don't know how many there are, so it is not necessarily a bad idea to say there ought to be a time limit, which is where I am going with this.

Mr. WATT. I am not suggesting it is a bad idea. I am just trying to figure out how you think it is a good idea, how you take 28 percent and make it a good idea. I think I could make the case that 72 percent makes it a bad idea a hell of a lot more than 28 percent making it a good idea. I wasn't even trying to do that.

Mr. Katz, go ahead.

Mr. KATZ. I just wanted to reinforce your point. TANF is very different from housing. The first difference is that States were administering welfare prior to TANF. They were administering the AFDC program. They were experimenting with the program. They were getting waivers from the prior administration. So there was expertise. There was an infrastructure of administration on welfare that does not exist at the State level on housing. That is number one.

Number two, I think the real conversation we should be having is how does housing serve as the platform for helping welfare recipients make the transition to work. And then how does it reward work once welfare recipients have made that transition? Because once they have made that transition, it is not like they are earning sufficient wages to afford housing in most metropolitan markets in the United States.

So I think the HANF connection between housing and welfare is a really curious one. I think we have got to understand the role housing assistant can play in helping welfare recipients make the transition to work, and then stay in work, because the affordability problem does not go away even after employment.

Mr. EGAN. Mr. Chairman, with your permission could I add to that?

Chairman NEY. Yes.

Mr. EGAN. I would like to speak from experience at the local level. As the Chairman indicated, I am the Chairman of the Fairfax County, Virginia Redevelopment and Housing Authority. I am struck with the "therefore" answer here. Just because the States administer TANF, therefore why should the voucher program also be administered by the States. Our experience is that where the connections with jobs, day care, transportation, supportive services are made are at the local level. We make those connections. I do not see therefore the HANF proposal, as I indicated earlier, adding any value to those relationships. In fact, my staff contends that they in fact would detract value from those relationships.

Mr. WATT. Thank you.

Mr. Chairman, I don't want to ask another question. I do want to make two very quick points, though. Number one, I am distressed that Mr. Husock seems to think that we should still be in the business of experimenting with poor people. That is one point and that is not a question.

Second, for the life of me, I have not been able to figure out what Ms. Khadduri, the point that you were making which contrasts substantially I think with the point that Ms. Turner was making, that simply putting something at the State level makes it more effective. If that were the case, I don't know why we are even involved in the Section 8 program. I mean, we ought to just get out of the business and let the States do it. That is not a question. There are a couple of points in your testimony where you just kind of assume that something is better because it is not here. I do not necessarily accept that.

Thank you, Mr. Chairman.

Chairman NEY. Thank you.

Mr. Clay?

Mr. CLAY. Thank you, Mr. Chairman, Ranking Member Waters, and good afternoon, witnesses.

Let me try a more targeted approach. Let me ask Mr. Olsen first, you stated that the housing choice voucher program is by far the most cost-effective program of housing assistance in the United States. Why do you want to change it? Tell me how the conversion to block grants will make the Section 8 voucher program better? And how will it be better for recipients?

Mr. OLSEN. Actually, Ms. Khadduri would probably be better for answering this because what I know about this is really by reading a paper that she wrote. I think the advantages of going to block grant are not really large, but she argues and I agree with her that it will improve the portability of vouchers across different areas. There would also be some administrative savings by not having multiple housing authorities dealing with the same geographical area.

Mr. CLAY. I will get to Ms. Khadduri. I want you to answer.

OLSEN: Okay. I think those would be the main ones. I think I am forgetting one, but I don't regard it as large. I think the best-case scenario is that it would improve the program slightly. It has its flaws, but I think this is a very fine program.

Mr. CLAY. I just wanted to hear your thinking along those lines.

Ms. Turner, you talked about portability of vouchers by region. Let me ask you out of ignorance, could HUD institute this policy now?

Ms. TURNER. I think HUD could be doing a lot to encourage the housing authorities in a region to collaborate with each other more effectively, to share waiting lists, to share application forms, and to streamline the process when families want to move from one jurisdiction to another. But HUD could go further. It could launch a demonstration inviting a regional institution in a metropolitan area to test the effectiveness of region-wide program administration, really assuming the responsibilities that are currently performed by individual housing authorities.

Mr. CLAY. You also raised the concern that States could use the block grants for untested methods. I guess that is somewhat sounding the alarm, that it could be a disaster to do this.

Ms. TURNER. Yes, I think it could. Again, unlike TANF where we currently have no evidence on what would happen if there were time limits, what would happen if subsidy levels were reduced, what would happen if other cost saving restrictions were imposed on this program. We can make some assumptions. I think those kind of changes in the program would undermine landlord participation, undermine families's ability to move to neighborhoods of their choice, and leave working families living in unaffordable housing without the assistance they need to pay high rent levels.

Mr. CLAY. Thank you.

Let me ask for the entire panel, if you could each approach this question and try to come up with a response. Why are we going to take a successful program, send it to the States, and create problems for systems that are not adequate to administer the Section 8 program? If you could just start on that end and give it a shot.

Mr. EGAN. Mr. Clay, thank you. Let me just build upon my earlier comment and speak mainly from my experience at the local level in Fairfax County. We have found that the kind of things that make for a successful program at the local level are a high degree of landlord participation, the opportunity to increase utilization rates, to provide mobility counseling and other kinds of supports that happen at the local level. We don't see the State adding value to those activities. We do not understand why putting the decision making power in Richmond would make the program work better in Fairfax County.

Mr. CLAY. And that relationship is derived from the local PHA and the Federal government.

Mr. EGAN. I cannot imagine why a landlord in Fairfax County, who we work with very carefully and closely and supportively, would be aided and helped and encouraged to participate any better in the program by someone in Richmond developing that relationship.

Mr. CLAY. Thank you.

Mr. Husock?

Mr. HUSOCK. Before Governor Thompson of Wisconsin became HHS Secretary and initiated his welfare to work program, we didn't know what the results of that were going to be either. So if we were to initiate adjustments in the Section 8 program based on encouraging long-term self-sufficiency and upward mobility, and to do it on a waiver basis as was suggested by Dr. Khadduri, I believe, such that the default would be on the States to demonstrate that there was a reasonable chance and they had thought their innovations out in a rigorous way, I don't think there is any reason to presume that we are courting danger. Again, we saw experimental, I guess that is a politically incorrect word here, work pre-TANF. And we can see the same kind of thing again on a waiver basis, nothing precipitous, but I think that there is no reason to presume that States are going to follow it up.

Mr. CLAY. But Mr. Husock, this is not a debate about TANF. I think the jury is still out on that. I mean, so what? We have dumped people off of the TANF rolls, and we do not know what has happened to those people. We don't know what their plight is. Some have been successful, but not all. So let's not compare TANF to HANF because I do not think it is similar. I really don't.

Because I am running out of time, I would like to go to Mr. Katz, and thank you for your answer.

Mr. KATZ. When I was in the government, what we used to call this kind of proposals was an "OMB special."

[LAUGHTER]

This is a proposal that from my perspective is designed to cut the budget over time, to de-couple funding decisions from market pressures, from rent increases, and basically push the problem down to state governments, which obviously at this point in time are under dire fiscal stress. So I think we know what ultimately is behind this kind of proposal.

Mr. CLAY. Thank you.

Ms. Khadduri?

Ms. KHADDURI. I guess I differ from Mr. Katz in that I am willing to assume that those who have proposed administration at the State level do so out of the best of motives, rather than out of the worst of motives. I do think that consolidating the administration of the program at the State level could make it a great deal more efficiently operated.

As I said in my testimony and I have enlarged on it elsewhere, the program really has become a crazy quilt of lots of tiny little administrators of programs and of overlapping jurisdictions within a metropolitan area. Sometimes the city and the county administer vouchers in the same place. It does not make any sense, and it does get in the way of effective program administration because landlords do not know what the rules are since they are dealing with two different housing authorities. Families don't know which waiting list to get on.

I also think that the possibility for coordination of goals and processes for linking the voucher to other social programs is something that really ought to make us consider state-level administration. For example, programs for people with chronic mental illness and with developmental disabilities, by and large those policies are created and implemented at the State level. This is a population that uses the voucher program a great deal, but it has been difficult to serve that population as effectively as it might be with vouchers because of the disconnect between the local administration of the vouchers.

Mr. CLAY. And after all of that having been said, will you take into consideration the dire financial straits that our States are experiencing now, and you still have confidence that they will be able to administer this program in a manner where they will not go in and try to manipulate that funding for other areas.

Are you still confident that the States are capable of doing that? I mean, look, these States are really dying on the vine. They are in big trouble financially. And yet you are confident we can give them this block grant and that they will focus all of that funding towards Section 8 programs, especially those States that do not have any experience in housing? I know my time is up.

Ms. KHADDURI. As I said before, I think this should be a voucher program. I think the use of the program should be limited to tenant-based assistance, either rental assistance or homeownership assistance, but that States should not be given broad flexibility to use the program for other kinds of housing-related things.

Mr. CLAY. Thank you, and I am sorry for going over, Mr. Chairman.

Chairman NEY. We are overtime on this one, I wanted to note.

Mr. Davis?

Mr. DAVIS. Thank you, Mr. Chairman. I thought we were at the NBA 5 minutes for a second, and not real-time 5 minutes.

Mr. Husock, I was a little bit tempted to start with you earlier, but my friend from North Carolina, Mr. Watt's, effort at salvation only got you to purgatory, so I am going to leave you alone at that point.

What I do want to do, though, is start with Dr. Turner. One of the observations that you make, Dr. Turner, I suppose is somewhat related to some of Mr. Husock's observations. It is the fact that, whether it is racially based or whether it is based on some kind of class stigma, you name the basis of the stigma, there has been an effort on the part of some people to stigmatize the program, and certainly some communities have reacted perversely or negatively to Section 8 people "coming into the neighborhoods."

Can you talk for a second about how we can grapple with that problem? How we can deal with the problem of better educating people about Section 8? Because I think, number one, there is enormous misconception about it. I think Ms. Waters's point is certainly accurate that the majority of people in the program are members of, I hesitate to say majority, because I guess that would vary from State to state, but certainly a large number are white or Caucasian. That is a common misconception about the program, that it is mainly blacks or Hispanics.

Another common misconception about the program is that a significant number of people on it are on welfare. Even by Mr. Husock's account, it is only 28 percent. So how do we grapple with some of the various stereotypes and misconceptions that do exist around this program?

Ms. TURNER. Thank you. I think that is an important challenge for the program, to overcome the stereotypes in receiving communities and also the stereotypes among landlords. In general, families who receive Section 8 vouchers have been quite successful in getting access to neighborhoods all over the metropolitan area. The program does not result in very much clustering. There are some exceptions to that, and those exceptions are cause for concern, but they are the exception, they are not the rule. Our research suggests that when that kind of clustering occurs, it is because of the persistence of race-and ethnicity-based discrimination and segregation in housing markets. It is because so many doors are closed to voucher recipients that they end up becoming clustered, often in the few neighborhoods that have not slammed their doors.

Mr. DAVIS. Let me ask you a larger question, if I can take advantage of a chance to get into a slightly broader area, we recognize that there is an enormous amount of discrimination that still goes on in housing in this country, and the consequence of it is that our schools are re-segregating. Another consequence of it is that successful programs such as this end up getting stigmatized.

How do we, as a practical matter, deal with that larger issue of integrating our neighborhoods in the context of using this kind of a program? Can you talk about ways that we could possibly better use Section 8 to accomplish the goal of integrating neighborhoods?

Ms. TURNER. It is obviously going to take more than the Section 8 program to win the fight against segregation and discrimination. But of all our housing programs, Section 8 offers the most in this regard because it gives individual families the freedom to choose where to go and it lets one family at a time make a neighborhood choice and move into a neighborhood. When the program is used effectively, families of all races get a chance to look at the neighborhoods available to them; neighborhoods where they are race predominates; neighborhoods where they would be in a minority; look at them and decide is this the neighborhood that offers a better life for me and my children.

When the program works well, they get help making that move and an effective housing authority would be reaching out to that receiving community, not sending up alarm bells if there is somebody new moving in here, but watching and being ready to help that family and help the community overcome any challenges of misunderstandings that might arise.

Mr. DAVIS. Let me turn to a slightly different question in the time that I have left. There are at least two or three of you on the panel who have expressed some sympathy with the idea of decentralizing this program, if you will. I am not quite sure that I understand that argument. Number one, it is already a program that is decentralized. It is primarily administered at the local level as it is. I could see it if we were talking about a Federally administered program that you wanted to devolve into the local communities. This is, in effect, a locally administered program that you want to shift back up to the States. It is kind of the opposite of the usual Federalism thrust.

Let me ask those of you who are sympathetic to the goals of HANF, why not simply find ways to strengthen our local housing authorities, which seems to me to be a slightly more rational response to this problem?

Mr. HUSOCK. I actually have some sympathy with that point of view. I think that HANF seems to be the vehicle, candidly, that could serve to practically become a means to adopt some changes in the program. But as I pointed out in my testimony, in Congressman Watts's home town of Charlotte, I think the housing authority there is doing a great job, because you happen to have an executive director who was bold and willing to experiment and not afraid of getting called names for trying out a voluntary time limit.

If more housing authorities were encouraged to act in those directions, that I think would be a very positive thing. So I do not rule out the idea that housing authorities can do a good job. It just seems to be as a practical matter, we are more likely to get quicker change by aligning social and housing policy at the State level.

Mr. DAVIS. If the chair would give me an additional minute or so let me try to make one additional point that I do think comes to mind as I listen to a lot of you. There is talk from at least some of you about the utility of putting this program in the hands of the States, and you are making the usual arguments about experimentation and about innovation. I think we have heard all those arguments before.

One thing that strikes me as being very different, though, is the complete absence of standards that HANF would contain for what makes for a successful program. It is one thing to say to the States, go forth and innovate, go forth and create, but we are not giving them very many standards.

Mr. Husock, you just outlined the kind of local program that you think works. That is well and good. The problem is that HANF does not do a very good prescriptive job of saying this kind of program works or that kind of program doesn't work. So I will just close with this observation that if we are even going to seriously consider as a committee and as an institution adopting HANF, which I hope we don't, but if we are going to consider doing that and if we are going to consider making these kinds of changes, it strikes me that we have to at least staple some genuine standards onto the administration of Section 8. Otherwise it will become simply survival of the fittest and that will not be a good thing for a lot of people dependent on this program.

Thank you, Mr. Chairman.

Chairman NEY. Ms. Velazquez is next, but Mr. Scott, did you have a comment?

Mr. SCOTT. Yes, I just had one point I wanted to make right quick. I appreciate your giving me my time. The other point I wanted to discuss was that it just concerns me, of all the things about this move, is the move to the States. Let me tell you why. I served in the State legislature of Georgia for 28 years, served 20 in the senate, and all of those years on the Budget Committee. One of the things that bothers me about this is there is no cry coming from the States of “give me this program.” Many of them said they really don’t want it; many of them are not equipped to handle it; they have no housing experience; there are no housing authorities there.

The other thing is, these are block grants going down to States, many States of which have constitutional amendments to have balanced budgets, which means quite frankly that if those funds are not dedicated, the only way they can be dedicated is to come with laws that the legislature will pass that they cannot be touched. None of those things are coming with this. This is money being given.

So we really have some very fearful concerns that have not been addressed that to give this program to the States is just like throwing red meat out into the lion’s den, to paraphrase a word.

Mr. DAVIS. Would you yield for a second, Mr. Scott? Mr. Chairman, if you will just let me make one brief follow-up point.

Chairman NEY. I will note that it will be on Ms. Velazquez’s time.

Mr. DAVIS. I can do it in 20 seconds, Ms. Velazquez.

Chairman NEY. I will give you 10.5 seconds.

Mr. DAVIS. Okay. One of the things that really keeps occurring to me is that whenever we talk about transferring these responsibilities to the States, has anybody ever bothered to ever poll the Governors or the Governors Association to ask them if they want these things? Those of you who are advocating that, has anybody even bothered to poll the Governors Association and ask them? Okay, I read that as a no. Thank you.

Mr. SCOTT. That is my point.

Chairman NEY. We will turn to the gentlelady from New York who has extended time.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Mr. Husock, I am sorry to have missed the earlier questioning of this panel. I understand, however, that several of my colleagues addressed negative implications and the tone of your testimony. I am glad that I went to another meeting so that I took some fresh air. I really was outraged by your testimony and your subjectivity. I resent the fact that we invite witnesses who can come here, read a Statement such as yours, and then say that those things cannot be attributed to you because these are words of other people. I don’t know if what you wrote quoting other people was true or not.

Anyway, so let's discuss not what you are attributing to other people what they said, but let's discuss part of your testimony that can be attributed to you. You advocate time limits on short-term assistance to enable long-term reliance. Approximately 70 percent of people on vouchers are already working. How will terminating their assistance help these families to improve their situation and achieve self-sufficiency?

Mr. HUSOCK. My concern is the formation or, candidly, is inviting more people to participate over time by encouraging the formation of new households that are in need. I am hopeful that if we had a time limit, and maybe it should be a time limit for new households, for new enrollees, because we should not change the rules in the middle of the game. I take the point.

If we can set the rules such that those who are enrolling in the program now understand, and this is how it was done in Charlotte. In Charlotte, the time limit was linked up with HOPE VI and those who were entering the HOPE VI program projects, they said, okay, this is a really good new unit and we think that in order to enroll in this program and to move into this, you ought to think about a five-year voluntary time limit. That is the way that Charlotte proceeded. I think that is really a national model.

I am not endorsing a blanket time limit. I am saying we ought to look to the States to experiment. If States in their wisdom under the guidance of elected officials such as yourself think it is precipitous to move people off of Section 8, and we don't really even have data, by the way, on how long people stay in Section 8. HUD is not keeping that data and disseminating it, to my knowledge, so it may be that most people are not even on the program that long and it would not even be that big of a change. But it would be a big change for people who are coming into the program for the first time. I think a voluntary time limit or perhaps a mandatory time limit under some States's or localities's aegis is worth trying in a well-evaluated way, as Dr. Khadduri has said.

Ms. VELAZQUEZ. Mr. Olsen, I am intrigued by the proposal that you set out in your testimony to have PHAs success rate determine rates to which they can over-extend vouchers. How would you handle the potential problem of more families finding a home than there are vouchers available? Who then decides which family gets the voucher? What would you do to make up the time lost to the family searching for a home, only to be denied a voucher? How would you compensate the landlord for any income lost as a result of potential tenants who were turned away believing the voucher holder would move in?

Mr. OLSEN. I think that we should expect that everyone who is offered a voucher would use it. We have had an Entitlement Housing Assistance Program. We tried it during the experimental housing allowance program, an entitlement program, the participation rate was less than 50 percent. Those vouchers were much less generous than the current vouchers. Their cost was about $3,000 a year, rather than $6,000 a year in today's prices.

It is often said, people afforded vouchers can't find a unit. It is not that the unit is not there. The units are there. It is a question of how much incentive people have to find them. And when you had an entitlement program, many people chose not to, some of them went out and searched and simply could not find a unit within the amount of time they were willing to devote to it. But these were largely people who were eligible for the smallest subsidies. People eligible for very small subsidies just decided they were not going to do it. That has been found in the Section 8 voucher program. The participation rate is highest among the poorest people. Why? Because they receive the largest subsidy for finding a unit.

Ms. VELAZQUEZ. But let's take New York, for example.

Mr. OLSEN. Yes.

Ms. VELAZQUEZ. There are almost 100 percent of vouchers being used, and then the units are not there.

Mr. OLSEN. Well, the units must be there if all of the vouchers are used. Are you saying all of the people are getting into units?

Ms. VELAZQUEZ. What I am saying is we are facing a housing crisis in New York City, and the same way in Los Angeles and other urban cities across the country.

Mr. OLSEN. Usage is not going to be a problem, certainly in the current situation, because there are about 30 times as many families eligible for vouchers who already live in units that meet the program's standards as there are vouchers to allocate. In the current situation, there can never really be a problem of using all of the vouchers. This is a matter of mismanagement. When they are not used, in my book it is a matter of mismanagement by local housing authorities, not adjusting their over-issuing of vouchers to the success rates they have actually observed.

It is like college admission officers. If college admission officers did as poorly as some of the housing authorities, not all of them, as some of them, they would not be around. They would not have the job that much longer. So I view low utilization rates as a failure of administration by local housing authorities.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Chairman NEY. Thank you.

Ms. Waters, any additional questions?

Ms. WATERS. If I may, Mr. Chairman. You have been very generous and gracious with your time. We did not have an opportunity to delve into this idea that somehow this housing program could teach morality. I am really concerned about the thinking that we encourage with Section 8 single-parent families, by giving women, single-parent women housing, somehow we support the idea that they are not married, or we support the idea that they are having babies out of wedlock. I am very bothered by that.

Let me ask, what would you suggest we do with single-parent households that need housing, that qualify for housing? How would you develop a policy that would encourage them to get married, if that is some kind of value that you think should be inserted into this policy? How would you do that, Mr. Husock?

Mr. HUSOCK. I meant to point out just the figures speak for themselves, that the largest group of those who receive Section 8 housing vouchers are single-parent families, especially among non-elderly, non-disabled. So I think it is a program that addresses that group, I think that is incontrovertible.

My thought was that if for new enrollees particularly, over time they had the sense that this was a declining subsidy, perhaps not a precipitous cut-off, but a decline over time, again something that jurisdictions can consider, then they would make life choices, maybe they would say, gee, the rent is going to go up and if I want to buy this unit, maybe it is worth thinking about whether I want to make some kind of a lifestyle choice that would have some sort of co-household head. This is a category of HUD's too.

Ms. WATERS. I am sorry. I want to make sure I understand your Statement. It was kind of couched in some interesting language. You are saying that find somebody with enough money to help you pay the rent and get married. It is an economic decision?

Mr. HUSOCK. I am suggesting that financial incentives could play a role, sure.

Ms. WATERS. That is very interesting. Thank you very much.

Chairman NEY. A question I had, and I want to get to the second panel, but a quick question I had, Mr. Katz, you were talking about urban metropolitan areas and some consolidation. Do you have any thoughts about the smaller areas where you have 30 or 40 vouchers, you know, rural or small areas?

Mr. KATZ. I think that is an interesting question as to who ultimately should bear responsibility for administering the program in non-metropolitan areas. Perhaps that is where the States should play a role. Now, some of those smaller areas are obviously right at the fringe of metropolitan areas, directly in the path of growth. From my perspective, I would consider them to actually be part of the metropolitan areas, even if they are not defined as such.

I still think the question of who administers is different from the question of how the funding arrangement is set out, and all the other programmatic restrictions and issues that have been discussed today. So I think this question of who administers is separate from some of the programmatic issues that have been discussed. That is why, from my perspective, the HANF proposal, whether it is for an entire state or just for non-metropolitan areas, is very troublesome.

Chairman NEY. Thank you.

I want to thank the panel. I think you have been a tremendous panel and I appreciate your time here up on the Hill. Thank you.

Panel two can come forward, thank you. We had panel one and panel two, and we moved to panel three.

[LAUGHTER]

Let me just introduce the witnesses. Sheila Crowley is President and CEO of the National Low Income Housing Coalition. She is a member of the board of the National Housing Trust, the Poverty and Race Research Action Council and the Technical Assistance Collaborative. Dr. Crowley lectures widely on the issues of social policy, social justice and legislative advocacy. Welcome to the Hill.

Henry Marraffa, Jr., has served on the Gaithersburg City Council since 1995. He is testifying today on behalf of the National League of Cities, where he serves on the Community Economic Development Steering Committee. Ann O'Hara is a co-founder and Associate Director of the Technical Assistance Collaborative in Boston, Massachusetts. Previously, she served the Commonwealth of Massachusetts as the Assistant Secretary for Housing and Director of Rental Assistance Programs. John Sidor has 25 years of experience in the housing and community development field and is currently a public policy management consultant. He is also adjunct faculty member in the graduate program of strategic leadership at Mountain State University in Martinsburg, West Virginia.

I want to welcome the panel. Thank you for your indulgence of the time waiting. We will begin.

STATEMENT OF MS. SHEILA CROWLEY, PRESIDENT, NATIONAL LOW INCOME HOUSING COALITION, WASHINGTON, DC

Ms. CROWLEY. Chairman Ney and Ranking Member Waters, thank you very much for the opportunity to testify today on the housing voucher program. I am Sheila Crowley. I am President of the National Low Income Housing Coalition and I am representing our members who share the goal of ending the affordable housing crisis in America and who have substantial experience with and expertise on the housing voucher program. We understand the program's value, its issues, and its challenges.

We have advocated with Administrations and Congresses of both parties to expand and improve the program since it began in 1974, which coincides with the founding of the National Low Income Housing Coalition. We consider the housing voucher program to be a co-equal partner in what we see as the trio of solutions to the affordable housing crisis, that is production, preservation and income subsidies. We strenuously oppose the proposal to convert the Section 8 housing voucher program to a block grant.

This committee has carefully studied the depth and breadth of the affordable housing crisis and has come to the same conclusions as many others that there is a serious shortage of housing units that are affordable for the lowest income households. The latest analysis of the affordable housing crisis is contained in the 2003 state of the nation's housing report issued by the Joint Center for Housing Studies of Harvard just this morning. I would like to request that copy of the report be placed in the record.

Chairman NEY. Without objection.

[The following information can be found on page 411 in the appendix.]

Ms. CROWLEY. Okay. I think you will find this to be of satisfactory scholarly rigor.

Despite housing being the one bright spot in an otherwise dismal economy, the Joint Center reports that three in ten U.S. households have housing affordability problems, and 14.3 million households are spending more than half of their income for their housing. Three-quarters of these are households that are in the bottom income quintile and the gap between the number of renter households in the bottom 20 percent of income and the number of housing units they can afford now stands at two million.

Our assessment of the housing voucher program is that it is essential. It is largely successful. It should be funded at an increased level, and it is in need of reform. Problems that have inhibited voucher utilization can be grouped into three categories: administrative shortcomings, discrimination against voucher holders, and the lack of modestly priced housing stock.

H.R. 1841 only addresses the administration of the voucher program and does so, in our opinion, in a heavy-handed and off-target manner. The rationale to block grant the voucher program to States in order to improve its administration fails to recognize substantial improvement in voucher utilization in the last two years, and indeed the information that we have gotten most recently from HUD is that the utilization rate is now over 95 percent.

There are numerous reasons to reject this proposal. I have reviewed many of them in my written testimony. You have heard many of them from other panelists. But let me say that its greatest flaw is the failure to guarantee that the funding of the housing voucher program would keep pace with housing costs. States would be unable to continue to serve the same number of low-income people at the level needed to assure housing affordability, much less expand assistance to help the many thousands of people on housing voucher waiting lists.

Protestations that erosion of the voucher program is not the intent of the proposal notwithstanding, the mounting Federal deficit and the corresponding debt that it will create will force harsh measures in the not-too-distant future. In the current fiscal environment, converting the housing voucher program to a block grant is best understood as stage-setting for future cuts to the program.

There are several straightforward things that Congress can do to improve voucher utilization, some of which were in H.R. 3995, your omnibus housing bill from the last Congress, and in bills in the Senate. First, HUD has the option to reallocate unused vouchers from one administering agency to another, and Congress should require reallocation from communities that cannot use all their housing vouchers to those who can, and to the extent possible keep those housing vouchers in the same region. The threshold for reallocation should be quite high, a 95 percent utilization rate.

Second, Congress should enact reforms that will incentivize owners of rental property to participate in the program, in particular making the inspection process more flexible and less time consuming for owners, a proposal that was detailed in H.R. 3995. And third, Congress should establish a housing success fund or other mechanism to help housing voucher holders find and access available housing with funds for application fees, credit checks, security deposits and the like, as well as supporting housing search assistance, outreach and counseling and those kinds of things.

We know that some landlords decline to accept housing vouchers because they object to the people who are voucher holders. Congress should consider a testing program that would attempt to discern the extent to which discrimination against voucher holders violates Federal fair housing laws. Ultimately, the success of the housing voucher program does depend on the availability of safe and affordable housing.

This committee came to bipartisan agreement last year on the need for some new form of investment in housing production. Many others have come to that agreement. So in closing, I would like to urge the committee to take up H.R. 1102, the National Affordable Housing Trust Fund Act of 2003, which now has 200 cosponsors in the House, at your earliest possible convenience.

Thank you for inviting me here today.

[The prepared statement of Sheila Crowley can be found on page 284 in the appendix.]

Chairman NEY. Thank you.

Next witness?

STATEMENT OF MR. HENRY MARRAFFA, JR., COUNCILMEMBER, GAITHERSBURG, MD, ON BEHALF OF THE NATIONAL LEAGUE OF CITIES

Mr. MARRAFFA. Chairman Ney, Ranking Member Waters, members of the subcommittee, my name is Henry Marraffa. I am a council member of the City of Gaithersburg, Maryland and a member of the National League of Cities, and I serve on the Community and Economic Development Steering Committee. It is my pleasure to be here today to testify on behalf of the National League of Cities and over 18,000 municipalities across the country, on the proposed changes to the Section 8 housing assistance program.

Section 8 housing, also known as the Housing Choice Voucher Program, is a key part of the Federal government's efforts to addressing an ongoing national housing crisis through the private housing market. The NLC believes a radical change in the nation's largest low-income housing program will substantially damage a program that is effective in providing housing assistance to low-income families, the elderly and disabled individuals.

H.R. 1841, the Housing Assistance for Needy Families legislation, poses significant threats to the success of the Section 8 program. In particular, the National League of Cities is concerned with specific provisions of the legislation that threaten, one, the overall level of Federal funding and the funding structure of the program; number two, the reduction in and constraints on assistance available to low-income families; number three, local control over housing programs; and number four, an increase in administrative burden.

Currently, Congress adjusts funding each year based on changes in actual costs to ensure that housing agencies have sufficient funds to cover all the vouchers they have used. H.R. 1841 makes no provision for adjusting total block grant funding based on housing costs, general inflation or any other factor. The formula proposed would only consider housing costs to decide the percentage of the total funding provided for the block grant nationally that would go to each state, not the cost of the housing at the local level.

If Federal funding falls behind the program's needs, States would have to contribute their own funds, which they sorely do not have right now, or scale back the programs. They will do this in a number of ways: by reducing the number of families that receive housing vouchers; by shifting housing assistance to higher income families; they also will shift rent burdens to families participating in the program; or limiting opportunities to use vouchers to escape the high-poverty areas.

As things stand now, three out of four low-income families eligible for vouchers do not receive housing assistance because of funding limitations. In Montgomery County alone, where I live, we have approximately 62,000 residents who cannot afford the market rate of $1,180 for a two-bedroom apartment. Our voucher program has a waiting list that is currently at 4,370.

Local flexibility is the key to the success of the Section 8 voucher program. Public housing authorities, with the cooperation of local governments, have a long history of administering the voucher program in a way that supports families and ensures accountability and protects the public's interest. For instance, in my city of Gaithersburg, the Housing Opportunity Commission of Montgomery County, with which we work, administers the Section 8 voucher program currently to 4,292 lease vouchers. That is a 96 percent utilization rate. We actually do not have enough vouchers.

Finally, one of the most problematic aspects of the proposal is the State's ability to discriminate against sub-state areas. A state could shift vouchers from one community to another community; provide more administrative resources to one area to the exclusion of another; or even bar the use of vouchers in certain regions. This is politics at its worse. Such a discriminatory action would be detrimental not only to a local community not in good standing in the State, but also would ill-serve the overall needs of the low-income people living there.

In conclusion, while the Section 8 voucher program has been successful across the country, the National League of Cities recognizes, along with most everyone else who has testified, that the program is not perfect. Perhaps some of the technical aspects of the program should be revisited by the experts who administer the programs. The National League of Cities is committed to assisting Congress and this administration in such a review. Local government and public housing authorities belong and should remain the front line to play a primary role.

I would like to state for the record that the National Association of Counties, the National Association of Local Housing Finance Agencies, and the National Community Development Association share our strong commitment to local control and endorse the position of the National League of Cities as reflected in our testimony today and our written testimony.

I would like to especially thank the Center on Budget and Policy Priorities and the Council on Large Public Housing Authorities for their technical assistance in preparing this testimony. I appreciate the opportunity to be in front of you all on behalf of the National League of Cities, and I would be happy to answer any questions at the end.

Thank you very much.

[The prepared statement of Henry Marraffa Jr. can be found on page 335 in the appendix.]

Chairman NEY. I want to thank you.

Next witness?

STATEMENT OF MS. ANN O'HARA, ASSOCIATE DIRECTOR, TECHNICAL ASSISTANCE COLLABORATIVE, BOSTON, MA, ON BEHALF OF THE CONSORTIUM FOR CITIZENS WITH DISABILITIES HOUSING TASK FORCE

Ms. O'HARA. Chairman Ney, Ranking Member Waters, and members of the subcommittee, I would like to thank you as well for the opportunity to provide testimony today on H.R. 1841. I do so on behalf of the Consortium for Citizens with Disabilities, a coalition of approximately 100 consumer advocacy provider and professional organizations who advocate with and on behalf of people with disabilities and their families.

My work has been to expand access to Section 8 vouchers and other Federal housing programs for people with disabilities. My professional experience includes 6 years overseeing the Commonwealth of Massachusetts's statewide Section 8 program. The CCD Housing Task Force represents people with disabilities who have very low incomes, including three million who rely on Federal supplemental security income payments of $550 a month. They are participants in the program. They are on waiting lists for the voucher program, or they are trying to get on waiting lists. They live in institutions, in nursing homes, in board and care homes that are substandard, in emergency shelters, or at home with aging parents who don't know how the rent will be paid once they die.

Two weeks ago, we released a study, Priced Out in 2002, which found that people with disabilities receiving SSI in the United States today need to pay 105 percent of their monthly income in order to rent an apartment at the HUD fair market rent. A deep housing subsidy like Section 8 is the only way to solve a housing affordability gap of this magnitude. In the past 8 to 10 years, the Section 8 program has become a lifeline for people with disabilities, particularly since more than 400,000 units of public and assisted housing are now designated as elderly-only.

The CCD Housing Task Force is strongly opposed to the block grant proposal. We believe that a block grant modeled after TANF has virtually no relevance to people with disabilities or to elderly households or families that work, for that matter, who comprise the vast majority of Section 8 participants. We believe that Congress should continue to have the direct responsibility for ensuring adequate funding for all vouchers and for establishing Section 8 policies. And we believe that the Section 8 program should continue to be targeted to the most critical housing needs in our country today, those of extremely low-income people.

We would like to point out a few specific concerns regarding the legislation. As others have said, the block grant is very likely to cap program expenditures as rents rise. As a result, the number of households inevitably would go down or the rent paid by the tenant would inevitably go up. Neither of these options is acceptable to the disability community.

Second, with a flexible block grant, state administrators could easily redirect voucher funding away from people with disabilities to serve more popular political constituencies. They could implement time limits that would be disastrous for people with disabilities whose impairments are not subject to arbitrary time limits. And they could implement policies that segregate people with disabilities, rather than promote community integration.

We strongly oppose new targeting policies in the legislation that would permit higher-income households, including those for people with disabilities above 80 percent of median income. There are other housing programs that can assist people at these income levels. Fourth, a block grant proposal would end the congressional strategy to provide Section 8 vouchers for people with disabilities who are no longer eligible to move into elderly-only buildings. It could also jeopardize 10,000 vouchers currently funded from the Section 811 appropriations.

Finally, there is ample evidence that a State-administered block grant will not work; that the transition would cause chaos in a program that, despite its problems, continues to work well. Many States have not done a good job running Section 8. Many States do not want to administer a block grant program, and others lack the capacity to do so.

Section 8 relies on an important third partner, the landlord. Any radical change proposed would prompt many landlords to sit on the sidelines. Tenants would also be uncertain about the future of their rent subsidy, a situation that would be disastrous for people with disabilities who have nowhere else to turn.

We believe there are reforms and improvements which could be made to the voucher program. They have been mentioned by almost every speaker, like increasing local flexibility in setting maximum rents, flexibility that was actually in the program before Quality Housing and Work Responsibility Act was passed in 1998. We believe that vouchers should be linked more effectively to affordable units, especially accessible housing developed with HOME or tax credit financing. We believe that PHAs should be able to get access to voucher success funds for landlord outreach housing search and other costs associated with helping people find housing.

Chairman NEY. I am sorry to interrupt, but they have called a vote, so if we can get a brief summary on yours because we might have some questions.

Ms. O'HARA. In conclusion, Mr. Chairman, we would like to see Congress and HUD work together to seek solutions to these issues.

Thank you.

[The prepared statement of Ann O'Hara can be found on page 343 in the appendix.]

Chairman NEY. Thank you.

Mr. Sidor?

STATEMENT OF MR. JOHN SIDOR, PRINCIPAL, THE HELIX GROUP, HARPERS FERRY, WV

Mr. SIDOR. Yes, thank you, Mr. Chairman and subcommittee members. I appreciate the opportunity to speak to you.

Let me just simply summarize my comments and say while I think the voucher program is a pretty good program, and probably a key component of national housing policy, it has two flaws that I think make it less effective than it should be and over time will make it a less effective program particularly. And that is, we tend to put vouchers where there are relatively few jobs for people of modest skills and education levels, and vouchers tend to be used in isolation from other resources, particularly human development resources.

I have prepared a Statement in which I elaborate on both these points. It shows an indication of where jobs are and where vouchers are, and the disconnect, and shows some examples of state administration. Twenty-eight States administer the program, having an average voucher administration of 6,600. I think their networks of delivery systems really can overcome both these issues of providing vouchers where jobs are and using vouchers in conjunction with other resources.

Therefore, I support the idea in concept of a State-administered voucher program, not a HANF program, but a State-administered voucher program in which States have the option to administer the program, modeled something like the CDBG program.

Is that a quick enough summary?

[The prepared statement of John Sidor can be found on page 388 in the appendix.]

Chairman NEY. Thank you.

I will be very quick because of the series of votes. I want to ask Ms. O'Hara, did you say 105 percent of the income level for a person who has a disability?

Ms. O'HARA. Yes. That is the national average.

Chairman NEY. You mean 105 percent is paid for the apartment?

Ms. O'HARA. It would cost 105 percent of the Federal SSI monthly payment to rent an apartment priced at the one-bedroom fair market rent.

Chairman NEY. We would like to pursue that further, just because the average is 30 percent, if a person does not have a form of a disability.

Ms. O'HARA. That is right.

Chairman NEY. The question I wanted to ask Ms. Crowley, is there anything that you think needs changing? I read your testimony, so I am clear where you are at on Section 8. Are there some ideas you would have that things do need changing within the administration of this program? Are you saying we keep it right as it is?

Ms. CROWLEY. I certainly think that there are ways to make the administration more efficient. For example, authorities that have a small number of vouchers, could create some sort of consortia. That would make more sense. I certainly think that the work that Bruce Katz has done on metropolitan understanding of regional areas contributes to understanding how it is that housing markets work, and that if housing authorities could in fact come together and figure out how to do regional administration, that would make a lot more sense than a lot of this overlap.

On the small ones I live in this little city of Fredericksburg, Virginia. The State of Virginia administers the voucher program for about 40-some different small jurisdictions that do not have their own housing authorities. Three of them were together in Fredericksburg and surrounding counties. It was very inefficient. And so those three jurisdictions came together in and of themselves, made the decision to do it on a regional basis, contracted with a nonprofit that was doing other kinds of housing programs, building housing with tax credits and those kinds of things, but has housing expertise, and got the Virginia Housing Development Authority to agree to that, made a proposal, and that is going very nicely.

So there are certainly lots of options that are available and that I think we should encourage them as much as possible

Chairman NEY. Thank you.

The gentlelady from California?

Ms. WATERS. I am fine, Mr. Chairman. There is one thing that I have not given enough thought to, but I want to, and that is support for landlords. I want to find out the problems that are associated with the landlords and why some do not want to accept vouchers, and see if the bureaucracy has grown so much that it is discouraging them, and see what we can do; see if there are any real problems there. That is one area I am going to pay a little bit of attention to. The other is automatic. We support the program as it is and are opposed to moving this to the States. The one area where I think we can do something is working with landlords.

Ms. CROWLEY. If I may, that certainly was an area that was addressed in H.R. 3995 last year and that could easily be incorporated into a much less drastic piece of legislation.

Chairman NEY. Thank you.

Mr. Sidor, one quick question or clarification. You support block granting it, but you do not support HANF?

Mr. SIDOR. I think that is true. I think that they should have the option of administering a flexible voucher program, not HANF as proposed in the legislation.

Chairman NEY. Thank you.

The chair notes that some members may have additional questions for the panel which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days. Hearing no objection, it is open for 30 days for members to submit written questions to these witnesses and place their responses in the record.

With that, we will conclude the hearing. I want to thank you for your time on the Hill.

[Whereupon, at 4:54 p.m., the subcommittee was adjourned.]

THE SECTION 8 HOUSING ASSISTANCE PROGRAM: PROMOTING DECENT AFFORDABLE HOUSING FOR FAMILIES AND INDIVIDUALS WHO RENT—DAY 4

Tuesday, July 1, 2003

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND
COMMUNITY OPPORTUNITY,
Committee on Financial Services,

WASHINGTON, D.C.

The subcommittee met, pursuant to call, at 10:30 a.m., at the California Science Center, Los Angeles, California, Hon. Robert W. Ney [chairman of the subcommittee] presiding.

Present: Representatives Ney and Waters.

Chairman NEY. I want to say hello to all the witnesses and everybody in the room. And this is a—I think it's the fourth hearing on the issue of the Subcommittee on Housing and Community Opportunity. My name is Bob Ney.

I'm a Congressman out of Eastern Ohio, I'd like to introduce someone, who is no stranger to anyone in this room, Congresswoman Maxine Waters of California. And this is the Section 8 Housing Assistance Program. And today the subcommittee continues its efforts to examine the current operation and administration of the Section 8 Housing Choice Voucher Program and review various proposals intended to make the program more efficient and cost-effective.

VOICE. Excuse me, sir. Your volume needs to go up a little bit. I can't hear you.

Chairman NEY. Okay. We'll do that. Usually there is a lot of hot air that comes out of Washington. Just need to direct it to the microphone.

And again, this is the fourth hearing in the series and the first field hearing on the Section 8 program. So we're very happy to be here for the first hearing outside the Capitol.

Michael Liu, Assistant Secretary of Public and Indian Housing Department of Housing and Urban Development testified at the first hearing on May 22nd, 2003. On June 10th, the subcommittee heard testimony from representatives from tenant organizations, landlord and development organizations, large and small public housing agencies, and the State housing finance agencies.

On June 17th, the subcommittee heard witnesses from the academic community and advocacy groups from around the nation.

Since the 1970s, rental vouchers have been a mainstay of Federal housing policy. Currently the Section 8 Housing Voucher Program supplements rent payments for approximately 1.5 million individuals and families.

While the concept of the program remains sound, the program has often been criticized for its inefficiency. More than a billion dollars is recaptured from the program every year, despite long waiting lists for vouchers in many communities throughout the United States.

The rising costs of the Section 8 program and some of the administrative concerns have caused many in Congress and the administration to conclude that the program is in need of reform.

Among the reforms that have been discussed is the administration's proposal to replace Section 8 tenants' housing vouchers with the State-managed blocked grants.

I have introduced this bill upon request of the administration. And for those of you not familiar with the "upon request," it throws the bill out for discussion. And as Chairman of the subcommittee, I've agreed to do that so we can discuss this issue, both in the Capitol and across the U.S.

Rather than contracting with the estimated 2,600 separate public housing authorities, as HUD currently does, the department, under this provision, would allocate funds to the 50 States, which could then work with public housing agencies or other entities to administer the voucher program.

As well as examining the merits of this proposal, the subcommittee continues to discuss other avenues for reform. And I would also encourage people, if they are not in support of this proposal, to also give us ideas if you feel there are needs or ways to reform.

This afternoon our two panels consist of government and non-government experts from the Los Angeles metropolitan area on the Federal government's primary program addressing the housing needs of low income renters, Section 8.

I look forward to hearing the different perspectives and would like to welcome all of our distinguished witnesses as we discuss voucher utilization in the high cost areas, such as Los Angeles, and ways to improve America's communities and stressing housing opportunities for all citizens.

I just want to say, before deferring to my colleague, that I appreciate the work of Congresswoman Maxine Waters, both within the U.S. Capitol, Washington, D.C., and also outside on many issues, not just this particular issue. We've been able to pass a couple significant pieces of legislation out of the housing subcommittee on a bipartisan basis. And I just appreciate the time that she has spent.

And this is the recess, and she's dedicated two solid days to issues here in California. So it's been a great working relationship.

[The prepared statement of Hon. Robert W. Ney can be found on page 468 in the appendix.]

Chairman NEY. And with that, I'm going to defer to our ranking member, gentlelady from California.

Ms. WATERS. Thank you very much, Mr. Chairman.

I'd like to welcome you all to this very important hearing that we are having here today. But I'd like to say a very special word of thanks to my colleague, Chairman Ney, for coming to Los Angeles and holding this hearing.

As he mentioned, this is the first field hearing that has been held in this Congress. He took time from his break to be here. He could be in his own district, or he could be taking a vacation, like many of the rest of our colleagues are doing at this time, but he honored my request to be here. And I'm very appreciative for that, and I welcome him.

Yesterday we had a most important hearing on the Community Development Block Grant Section 108 Loan Guarantee Program in the City of Los Angeles. So this is his second day here where he has spent hours yesterday, and will be spending hours today, dealing with these concerns that I have addressed and asked him to come out for.

Let me just say that we are concerned about how we can use our positions to get something done in this country. This is a bipartisan effort, looking at CCG and Section 108 and housing funds that we send from the Federal government to our city in an attempt to make sure they're utilized in the best way possible.

On Section 8 he certainly did not have to do this, because he was asked by the administration to carry it, to put it out there so that we'd create the discussion. He certainly didn't have to hold this hearing today. But I'm very pleased that he is doing it.

And I think working together we may be able to provide some leadership for both of our caucuses and to this administration about Section 8.

With that, I'm going to turn it back over to you, Mr. Chairman, to call on your witnesses.

Chairman NEY. Before we begin, behind us—why don't you raise your hand if you're staff of either side of the aisle, give them a round of applause.

And with that let me just introduce the panel.

Matthew Franklin, Director of the California Housing Community Development, Sacramento, California; Donald J. Smith, Executive Director, Housing Authority of the City of Los Angeles; third is Carlos Jackson, who was here yesterday, Executive Director, Los Angeles County Community Development Commission; also Larry Triesch, Assistant Deputy, Long Beach Housing Authority, Long Beach, California; Eugene Burger, Eugene Burger Management, on behalf of the National Leased Housing Association, Washington, D.C.; and Thomas K. Shelton, Partner, Greystar Real Estate Partners, and President of the National Apartment Association, and also appearing on behalf of the National Multi Housing Council of Phoenix, Arizona.

I would also note to all the witnesses that the members may have additional questions for this panel which they may wish to submit in writing.

Without objection, the hearing record will remain open for 30 days for members to submit written questions of these witnesses and place their responses on the record. Hearing no objection, that will be the format.

Chairman NEY. The other thing I would note is we have a timer, and we would ask—and it will beep and that means you went five minutes. We would ask for five minutes. And now anything you have without objection will be submitted. If you have additional written testimony for the record. But if you could kind of try to hold to the timer for five minutes because we have a second panel we will make sure we'll finish.

With that we will begin with Mr. Franklin. Welcome.

STATEMENT OF MATTHEW O. FRANKLIN, DIRECTOR, HOUSING AND COMMUNITY DEVELOPMENT, STATE OF CALIFORNIA

Mr. FRANKLIN. Thank you, Chairman Ney and Congresswoman Waters, for the opportunity to testify today and thank you for holding this hearing in California.

As you may be aware, prior to joining the Davis administration, I served in several senior positions at HUD from 1997 to 2001, and have seen firsthand the good work you both do on housing issues, and also have done a lot of work with your staff, Mr. Jones and Mr. Olson, two of the hardest working Hill staffers on housing issues. So we really appreciate you taking the time to get out here.

Under Governor Davis' leadership, the State of California is leading the nation in providing state funding and programs to meet its citizens' housing needs. In his first term, the Governor appropriated over $500 million for the development of affordable housing. This amount is three times greater than any prior California Governor appropriated in their entire term.

And then last year, the Governor, along with the legislature, and most importantly, the people of California, passed Proposition 46, which is a $2.1 billion bond to support development of affordable housing. This is the largest housing bond in the nation and the largest in California history.

The Housing Choice Voucher Program is a key component of our efforts to meet the housing needs of low-income families. Last year the State received approximately 258,000 vouchers, which were administered by a network of 104 public housing agencies.

The State of California, through my department, Housing and Community Development, also administers vouchers in 12 rural counties. We administer about 780 vouchers.

Voucher assistance generally serves extremely low income Californians, those earning less than 30 percent of area median income. The average California household receiving a voucher has an income of less than $14,000.

55 percent of participants are families with children, many of them headed by a single parent, most often a single mother. 47 percent of those served are households headed by elderly or disabled persons.

Despite a difficult housing market in much of the State, the California PHAs and the State have been generally successful in ensuring high utilization. The Statewide average utilization rate is 96 percent. And for the piece that the State administers, we currently have a 95 percent utilization rate.

However, the State does face many challenges. We are, as I'm sure you're aware, home to 18 of the 25 highest cost housing markets in the country. In these areas, rents have been rising at double-digit rates for several years, and vacancy rates are well below 5 percent.

When combined with the low production of new housing units during the 1990s, these factors make it difficult for voucher holders to identify housing at the prescribed program rents in high cost areas. However, our single biggest problem with the HCV program in California is woefully inadequate funding.

According to the 2000 census, only 17 percent of California's low-income households are actually assisted by the program.

In regard to HANF, the Davis administration is concerned that the legislation would eliminate the existing commitment to fully fund all authorized vouchers and accommodate renewal costs at the real rate of growth in rents.

In my view, this is the single most problematic feature of the proposed legislation. As you know, under the current system, Congress is committed to renewing all existing vouchers, with an annual adjustment in funding that accounts for increases in program costs and rents.

This system ensures that the number of families served does not decrease over time, and it is designed to empower program participants by paying a fair market rent for housing.

HANF would substitute this system of safeguards for one that would simply block grant funds to participating States, with no specific commitment for renewal funding or annual increases.

In the past, Congress has utilized the CPI or other like indices to facilitate annual adjustments for other similar state block grant programs. Using CPI for this program would be a disaster for the people of California.

According to the Center for Budget Policy and Priorities, over the last several years rents nationwide have increased at a rate equal to more than twice CPI. In California, where housing costs are the highest in the nation, the gap between annual rent increases and CPI is likely to be even greater.

HUD's own annual adjustment factors for project-based Section 8 in California indicate annual increases three to four times CPI in the past year.

If program funding does not keep pace with rents, the number of Californians served by the program would steadily decline over time. The only way to offset this erosion in program funding would be to target the program to higher income families or to require participating families to pay a larger share of their income for rent, actions that the Davis administration does not support.

The program funding mechanism prescribed by HANF also would appear to preclude the possibility of future incremental voucher funding, something that is desperately needed in California.

By wiping out the Congressional commitment to fully fund voucher renewals and account for real program costs, HANF would, in my view, seriously undermine the Housing Choice Voucher Program.

It would eliminate one of the program's most valuable features, its focus on serving extremely low income families, and it would create unacceptable hardship on participating families by substantially increasing their rent burden.

There are many other ways to improve the current program without sacrificing this assured funding.

I would join others who have advocated for funding for mobility counseling and assistance programs for voucher recipients; funding for aggressive landlord outreach, service and incentives programs wherein PHAs continuously recruit new landlords to participate in the program, and importantly, regional collaboration, something HANF does contemplate, or regional administration of the voucher program to help address administrative barriers to portability.

Thank you very much for this opportunity.

[The prepared statement of Matthew O. Franklin can be found on page 478 in the appendix.]

Chairman NEY. Thank you.

Chairman NEY. Mr. Smith.

STATEMENT OF DONALD J. SMITH, EXECUTIVE DIRECTOR, HOUSING AUTHORITY OF THE CITY OF LOS ANGELES

Mr. SMITH. Good morning, Chairman Ney. Welcome to Los Angeles.

Congressperson Waters, thank you and Chairman Ney for bringing the important work of the Congress to our city.

My name is Don Smith, and I returned to be the executive director here in 1994. In 1975, I was the responsible manager for starting the Section 8 program at the Authority.

Since the initial 1,500 certificate allocation, the program has tried to keep pace with the increased need for decent and safe housing. 70,000 households are on the waiting list, with 4,000 new households registering each month. 50,000 allocated Section 8 resources meet only a small portion of the desperate needs——

Chairman NEY. Move the microphone just a little closer.

Mr. SMITH. Sure—the desperate needs of these very low income and low income families seniors and the disabled.

Just as the housing authorities in Ohio work closely together, so do we in Southern California, with programs tailored to meet local markets, local governments, and most importantly, close to the needy people we serve.

The administration's HANF proposal, and you have heard most of the arguments in your hearings, promises to ease monitoring through 50 States, rather than 2,600 Section 8 providing local housing authorities.

The proposal seems directed at the increasing outlay of the program. It would also give the States new policy and program flexibility. We do understand that it would have discretion on subcontracting.

If I believe the program is broken at the service delivery level, I would support looking to a realignment of efforts to effectively house very low income housing persons. I do not believe that to be the case.

Lease up in Los Angeles is 99 percent. This success is based on partnerships with 17,000 owners and numerous owner associations, which has resulted in more units being made available and in good condition.

We support voucher holders with trained staff, other partner agencies and nonprofits in both their search and self-sufficiency and needs.

Following earlier models like Project Build, we learned to integrate housing supportive services and job training to add value to the future of these families, hopefully we will continue to improve our support of voucher holders in their difficult task of securing decent homes.

Besides continued operational improvements internally in the housing authority, how can we improve the program?

Let me give just one brief example. This is a market-driven program and needs market flexibility, especially as the markets tighten and rents spike. When HUD reduced the basis for the FMRs to the 40th percentile in a declining vacancy market, followed by an unwarranted 14 percent cut to the FMR, it caused a long-term disruption to voucher holders and contributed substantially to the increased failure rate.

Rent setting flexibility could have made a huge difference. No immediate rent mechanisms were available. By the time we had succeeded in HUD's lengthy approval process, the market and thousands of opportunities for voucher holders were gone.

And finally, HANF seems like an idea whose time has not come. In the interest of continuing to serve local families, the elderly and the disabled, I urge you not to adopt the HANF proposal and to continue working with local jurisdictions and housing authorities directly.

On behalf of the Board of Commissioners of the Housing Authority, as Chair, Ozie B. Gonzaque, I want to thank you for your careful evaluation at the hearings on this program. Thank you.

Chairman NEY. Thank you, Mr. Smith.

[The prepared statement of Donald J. Smith can be found on page 518 in the appendix.]

Chairman NEY. Mr. Jackson.

STATEMENT OF CARLOS JACKSON, EXECUTIVE DIRECTOR, LOS ANGELES COUNTY COMMUNITY DEVELOPMENT COMMISSION

Mr. CARLOS JACKSON. Good morning, again.

Yesterday I had the opportunity to testify on the Community Development Block Grant program and the importance to Los Angeles County.

Today I'd like to really again express the importance of housing and impose the burden on the Federal government to deal with the real major crisis in Southern California.

Therefore, I'd like to cover three areas in my testimony. One is to talk to about this legislative proposal. The second one is to discuss the proposal to cap and restrict Section 8 administrative fees, particularly how it's detrimental to managing public housing and also some of the things that we have done to make Section 8 a success in Los Angeles County.

First of all, we administer 20,000 Section 8 vouchers in Los Angeles County. We—on behalf of six small public housing authorities, we manage their programs as well. We are the fourth largest local administrator in managing Section 8.

73 percent of our voucher holders are below 30 percent of area median income area. 24 percent are at 30 to 50 percent. So you can see that we're dealing with extremely low income residents.

As Don mentioned, one of the key areas are our landlords. We have partnership with over 100—I'm sorry—10,000 property owners in our program.

I'd like to announce as of yesterday, we are leased up 100 percent. We exceeded our annual budget authority by a few percentage, because again recognizing that this is a real tight real estate market, and rents are continuing to increase.

Just for your information, in California there are over 300,000 vouchers. Between the city and the county, we administer 14.4 percent of those vouchers in the State.

I'm sorry. Let me back up again. There's 300,000 vouchers in the State, which represent 14.4 percent of the nation's total. Between the county and the city, we represent 22 percent of the State's vouchers. So you can see that again, there is a major clientele in Southern California.

There was reference to rent. The market rent for a two-bedroom unit in Southern California is $1300. The fair market rent that we are allowed to operate with is $967, and the gap continues to grow.

Our vacancy rate in LA County is 4 percent, less than 4 percent. And the median price to purchase a home is over $300,000, where only 36 percent of the families in Los Angeles County can afford to purchase a home. So that number continues to increase over the period of time.

As a local administrator when the proposal came out, my question: Was why? What is happening to stimulate this kind of a legislative proposal? It just doesn't make sense.

Over the past years there have been gallant efforts made to lease up to 100 percent. There is a great need at the local level. I do not see inefficiencies, ineffectiveness.

What I see is a great local partnership between landlords, tenants, the community and public agency to make this a real successful program, this in spite of all the real estate market conditions in Southern California.

It is very hard to penetrate the rental market, but there is a real sincere interest on the part of landlords and property owners to participate in the program.

To transfer it to the State would remove their ability to interact locally, and I would feel that they would be more isolated and alienated from being a good partner at this particular time.

It would be very logical and very business like for them not to participate today. They could get more rents on the open market than participating in our program.

But I have found out that there are quite a few landlords that are very sincere and have a commitment to the local community, and they want to participate and be part of the overall effort of providing affordable housing in Southern California.

The other side on the performance issue is that lease up nationwide has increased. There has been much attention throughout the country to make this an ongoing successful program. So, therefore, I don't see why there is a need to change to this level.

I would also think it would be very harmful to the program to try to think about transition during a time when many of the successes are occurring today. How long would it take to transition the program from the Federal level to the State level, particularly in times where many of the State are facing fiscal crisis?

As you might be well aware, in the State of California the deficit is at $38,000,000. And today we still do not have a State budget for local government.

So to think about the most meaningful protocol for affordable housing in a local community and to debate this at this time, I think is not right. And that's why what I was saying early on. It just doesn't make sense.

Chairman NEY. The time has expired. Would you like to just summarize it and put most of your comments in the record?

Mr. CARLOS JACKSON. Well, one of the reasons we're—I mean what we did to lease up to 100 percent, we had to go back and revamp our program, really look at streamlining things that we were doing that should not have been done, things that we could improve. But one of the most critical factors that we had was just to listen to landlords and determine what aspects of our program we could improve so they could feel comfortable and gain confidence in our ability to work with it.

And I thank you for the time.

Chairman NEY. Thank you, sir.

[The prepared statement of Carlos Jackson can be found on page 488 in the appendix.]

Chairman NEY. Mr. Triesch.

STATEMENT OF LARRY TRIESCH, ASSISTANT DEPUTY DIRECTOR, LONG BEACH HOUSING AUTHORITY

Mr. TRIESCH. Thank you, and good morning, Chairman Ney, Congresswoman Waters.

I'm the Deputy Executive Director of the City of Long Beach Housing Authority. And I'm honored to have been invited to speak before you. And I'm pleased that you are seeking testimony with regard to the proposed block renting of the Section 8 program.

The need for assisted housing in Long Beach is great. Of our 163,000 households, 25,000 of them are at 30 percent or less than median income.

Our housing authority provides vouchers to a little more than 6,000 of these households. And many others are housed in privately owned, but publicly subsidized units. But there are still thousands of very low income households in Long Beach who are in need of housing assistance.

As an anecdote, we recently opened our waiting list, and when, after presenting information on the application process at our local Cambodian community center, an older gentleman came up to me and asked: "What if four families are all sharing the same house? Should they all put down the same address as their place of residence?".

To me that expresses the need for assisted housing better than a book full of statistics. And by the way, we did receive approximately 15,000 applications for the waiting list. So there is a tremendous need.

We are a successful housing authority. We are 100 percent leased up. In fact, I got a report from my accountant yesterday, we're 101 percent leased up, which will cause me another problem, but that's not a bad problem.

We are a high performer, according to the SEMAP scoring. We are always looking in ways—looking for ways to make our service more efficient and more attractive to the landlords, who are the one critical element to our program.

Because we operate at the local level, we are able to partner closely with the apartment association, California Southern Cities, with our local Legal Aid Foundation, with the Fair Housing Foundation, just to name a few organizations.

Because of partnerships such as these, we can provide good service to both our landlords and to our participating families. So we are very concerned that the proposed block granting of the Section 8 program could seriously impact the delivery of housing assistance to the families most in need.

Two critical issues come immediately to mind, and you've heard these over and over again, and this morning as well. Number one, the program would no longer be a cost-driven program, but would become, instead, just a number, a dollar amount that could easily be reduced in tough times or not increased to keep up with the actual cost of housing.

The second issue is just so obvious. If the State becomes the grantee, there is no way to know how the State will deliver the services. Will the State contract with the city of Long Beach Housing Authority?

Will the State contract with the larger regional entity? And then what would happen to all the goodwill and the relationships built up at the local level to support landlords and the people we serve?

And finally, as I understand it, one of HUD's stated goals is to end chronic aimlessness within 10 years. I think it's important to understand, as my friend Steve Ranahan, from the Housing Authority of the City of Los Angeles likes to say, that the Section 8 program prevents aimlessness.

Most of the people that we serve are just one step away from being without a roof over their head. Each family we serve is given the chance to live in dignity, to live in a stable situation, where the kids can go to school and come home and have a place to do their homework.

Each elderly person on SSI that we serve will have enough money through the month to purchase food for each meal.

I know that there is a concern that the program is expensive. But if we want to help people pay the rent, I think the program will be expensive. I think there are ways that we could reduce the administrative costs a bit, given a bit of administrative leeway, regulatory leeway at the local level.

I think that we could cut some administrative costs. I have examples. These are sorts of nuts and bolts that came out of my staff. For example, if we enacted a legislation—enacted a provision that would not allow landlords to increase their rent more than one time a year, we would serve energy and costs and money.

If—currently we put landlords in abatement after 30 days when they fail to comply with our HQS requirements. If we said "In 45 days, if you do not comply, the contract is terminated," we would save energy and we would save money.

I think that the elderly should be recertified once every two years, rather than every year. And I think that we should tie the inspection process to the annual recertification process.

I think that we should get rid of the 40 percent affordability limit. Let people make their own choices.

There's lots of areas like this where we could work the program and save money administratively.

In conclusion, I ask that you don't fix a program that really isn't broken.

Thank you for the opportunity.

Chairman NEY. Thank you very much.

[The prepared statement of Larry Triesch can be found on page 548 in the appendix.]

Chairman NEY. Mr. Burger.

STATEMENT OF EUGENE BURGER, PRESIDENT, EUGENE BURGER MANAGEMENT, ON BEHALF OF THE NATIONAL LEASED HOUSING ASSOCIATION

Mr. BURGER. Chairman Ney, members of the subcommittee, my name is Eugene Burger. I'm President of Eugene Burger Management Corporation.

We represent some of the tenants here. We've worked with a lot of the housing authorities and PHAs around the area right here in Los Angeles.

Today I'm representing the National Leased Housing Association, whose members include both owners and managers of Section 8 housing, as well as housing agencies that administer the Section 8 voucher program.

We appreciate the opportunity to testify on H.R. 1841 administration's block grant or HANF program. We urge the subcommittee to reject H.R. 1841. This is an unnecessary reform, because the Section 8 voucher program works quite well in its current form.

In fact, the Section 8 subsidy has provided much needed rental assistance to low and moderate income tenants so they can live in safe and decent housing.

I would like to discuss two important points regarding the administration's proposal: The effectiveness of the current system and utilization of the Section 8 vouchers. We feel that it isn't broken, and if it isn't broken, we don't need to fix it.

However, under HANF, the State would receive block grant funds from HUD to fund Section 8 vouchers. The State may, but is not required to subcontract with housing agencies or other entities within the State to administer the block grant funds. Thus the State could choose to use these funds for other than housing purposes. Meaning that the public housing agencies would receive less funding than needed to administer the Section 8 vouchers.

In a State such as California, where there is a substantial budget shortfall, it's highly likely that the block grant funds will be diverted to other programs at the State's discretion.

And, because HANF provides that funding for Section 8 vouchers in subsequent years is tied directly to the amount of funds used the previous year, this diversion of block grant funds could, over a period of years, cause the public housing authorities to lose their funding for Section 8 vouchers altogether.

Thus, we believe that block granting of Section 8 funds to the States could have disastrous results for affordable housing, and could have the long-term effect of eliminating Section 8 vouchers.

HANF will only serve to widen the gap between the need for affordable housing subsidy and the amount of subsidy available. Again, the current system of delivering the Section 8 funding administration program is working fine.

Utilization of the Section 8 vouchers in high rent areas, such as Los Angeles, we are somewhere in the 95 percent range right now. And if I heard correctly, we're getting close to 100 percent right now. So I think that that delivery system here is working very well.

One of the important benefits of Section 8 vouchers is their portability feature. In theory, a Section 8 voucher issued by a public housing agency in Los Angeles to a low income family can be taken to any rental property, so that the family can live wherever they choose.

This is a laudable goal, albeit unrealistic goal, due to limits imposed on the value of the Section 8 voucher. The reality is that FMR-based rent and the value of the voucher relegates the family to lower rent areas.

And one of the things that we haven't talked about so far in this is, whether we like it or not, in California a number of properties are being converted from affordable housing to conventional housing.

The vouchers are allowing a smooth transition in that respect. We are able to negotiate with local housing authorities for an annual period to carry over those tenants who are in place now and give them an annual—a year to find new housing, where they can take their vouchers. That's a very important feature that is currently in need of.

The payment standards set by housing agencies are tied to the FMR. However, HUD established fair market rents are often not reflective of real market conditions, especially in places like Los Angeles where rents continue to rise.

HUD has taken steps to rectify this situation in recent years by providing higher FMR's in certain markets, but often the FMR rents lag behind the actual rents in the area.

When you compare actual comparable market rents to FMR's in high rent areas, you realize that the FMR's are not fair market. The result is that the voucher payment standard limits the value of the Section 8 voucher, which does not cover the owners' prescribed rents, which is based on actual rents.

Ideally the housing agency should be able to set a payment standard relative to market rents in the area served. However, if the FMR standard is to continue to be used, PHAs should be able to set the payment standard at whatever percentage of FMR is necessary to accommodate that.

Currently, the PHAs are allowed to go 110 percent and 120 percent over with HUD approval.

In conclusion, HANF does not address the utilization of Section 8 vouchers and does absolutely nothing to improve the mechanism for delivery of the funding and administration of the Section 8 voucher program.

On the contrary, by block granting the Section 8 voucher funds of the States where they are vulnerable to be siphoned off to fund state budget shortfalls, HANF stands to place the future of Section 8 vouchers in grave doubt.

As mentioned, the current delivery section is alive and well, and we think it should be continue to be used that way.

And I would support the idea of looking at some flexibility in the 40 percent cap rate. Also going to a move-in now for a new tenant. Give them 30 days. If there's an HQS problem, then fix it in 30 days or cut off the funding.

Those are some of the things we could do. Thank you.

Chairman NEY. Thank you for your testimony.

[The prepared statement of Eugene Burger can be found on page 470 in the appendix.]

Chairman NEY. Mr. Shelton.

STATEMENT OF TOM SHELTON, CPM, GREYSTAR REAL ESTATE PARTNERS, AND PRESIDENT, NATIONAL APARTMENT ASSOCIATION, ON BEHALF OF NATIONAL MULTI HOUSING COUNCIL

Mr. SHELTON. Chairman Ney, ranking member Waters, my name is Tom Shelton. I'm a partner of Greystar Real Estate Partners, one of the largest privately held apartment firms in the country.

In addition to that, I'm also the 2003 President of the National Apartment Association and a member of the National Multi Housing Council.

Our combined memberships are engaged in all aspects of the apartment industry, including development, ownership, professional management and finance.

It is my pleasure to testify on behalf of both organizations. NAA and NMHC commend you, Chairman Ney, for your leadership, and we thank the members of the subcommittee for your valuable work addressing affordable rental housing in America.

We also commend HUD Secretary Mel Martinez and the current administration for their interest in improving the Section 8 Housing Program.

We too believe Section 8 is critical to meet the housing needs of low- and moderate-income families, and believe that improving the existing Section 8 program is a central part of meeting those needs.

Although it is well intentioned, we think the Housing Assistance for Needy Families Act of 2003, H.R. 1841, will not reduce the administrative cost to participating property owners, and will not maximize program benefits for residents, as it does not bring the program closer to conforming to conventional market practices.

My testimony will first focus on how the Section 8 program works in tight housing markets since barriers to program participation can be particularly formidable in large, high-cost areas.

For example, the Los Angeles City Council recently adopted an ordinance that effectively prohibits owners from terminating Section 8 leases, which in turn discourages them from joining the program for fear that they will not be able to opt out in the future.

If an owner chooses to terminate a Section 8 lease and convert that unit into a conventional one, for the following five years the owner may only collect the portion of rent which the former Section 8 resident paid.

Local property owners report that the new law has already contributed to a decrease in affordable housing stock, because they left the program in advance of the law's passage, and are not now signing new Section 8 leases.

Owners also say they are frustrated with local program administration, and cite as an example that periodic inspections are not scheduled at specified times, so owners must wait for hours to meet inspectors.

We propose the following recommendations to improve the Section 8 program. First, we would like to see enacted a more efficient process for PHAs to apply for higher fair market rents that are more reflective of submarket rents.

We also propose to allow PHAs to raise the payment standard to 120 percent of FMR without HUD approval, and to request higher payment standards when necessary. FMR's must be set high enough to encourage owner participation, and, in turn, create a sufficient supply of apartments for voucher holders.

We thank HUD for raising the current FMR level to the 50th percentile in 39 high-cost areas. That level remains insufficient in areas with outdated FMR's and in high-cost submarkets.

In addition, we propose speeding up the move-in process by allowing PHAs to conduct individual unit inspections within 60 days after the resident moves in and payment commences.

PHAs could also conduct building-wide inspections in certain cases. Alternatively, PHAs could initially inspect a representative sample of units in order to certify that a building is eligible and conduct regular periodic inspections thereafter.

This approach would reward well-managed properties, allow PHAs to focus their scarce resources elsewhere, and all the while maintain resident safety.

Finally, we urge Congress to continue to fund the existing program structure administered by HUD. Effective this year, Congress enacted changes to minimize recapture, and moreover, national utilization rates have risen to nearly 96 percent. That success should be recognized and the process supported.

NAA/NMHC believe that the existing, successful appropriation structure, while not perfect, is working. We have considerable concern about the complexity of the proposed state level funding structure contained in H.R. 1841.

I thank you for the opportunity to testify and wish to offer our assistance to the subcommittee as you continue your important work to improve affordable housing opportunities for low- and moderate-income families.

[The prepared statement of Thomas K. Shelton can be found on page 512 in the appendix.]

Chairman NEY. I want to thank all the witnesses for your thoughtful and good testimony.

I have just a few questions. First would be directed to Mr. Franklin and to Mr. Jackson.

Is there any merit to regionalizing Section 8 vouchers? Would there be any merit to the administration to regionalize versus a block granting to States?

Mr. FRANKLIN. You know, I would certainly concur with much of the testimony today, as to the value of the local PHAs being the front lines.

I really do think the PHAs are doing a good job. In California, they have made tremendous progress and, at its core, Section 8 is a local program. However, I do believe that regional collaboration and cooperation could be a very smart approach to deal with some of the kind of sticky wickets here—most particularly, the utilization rate issue.

Currently there is discussion about moving vouchers between States; taking away from those who aren't using them, giving them to those that are.

This has to be considered long and hard to make sure there aren't unintended consequences. But when you look at the performance on the regional level—and we ran some numbers, looking at the local authorities' utilization rates and combining them to get a county average, and the average county utilization rates looked very good, although an individual PHA may not be performing as well.

Many are virtually right at 100 percent utilization, which shows, as you might expect, that housing markets are not necessarily consistent with city boundaries. You do need that cooperation across city boundaries and on the regional level.

So I do think there be could some real potential in that area.

Mr. CARLOS JACKSON. I support the same notion. To some extent we are already doing regional administration at the present time.

We administer six, six small cities public housing, I'm sorry, the Housing Authority Section 8 Program. And we found that you can reduce and streamline the administrative process and have cost saving there, as well as developing a good working relationship with the landlords.

I would support maybe almost to the extent, if you look at parallel to the community development block urban county side, where on behalf of small cities, we are administering their program. So there are streamlining measures that could be undertaken.

Chairman NEY. Thank you.

Mr. Smith, you mentioned about the voucher utilization rate. How did LA significantly increase its voucher utilization rates from low to very high? I'm just trying to see what lessons we can learn from LA.

Mr. SMITH. Well, we applied a complete reorganization. We did have to add staff. We added about 20 percent of our total Section 8 staff and reorganized them along the lines of supporting the residents in their search and owner outreach and streamlined the process of issuing vouchers the same day, in terms of verification, and a wide variety of approaches that were more responsive to the market.

We formed what's called TESS, Tenant Empowerment Support Services, probably the best thing we ever did, because to actually go out with the tenants when they are negotiating the leases is a difficult task and worked particularly well between the leases—between the owner and the voucher holder.

We conduct extensive orientations for owners on a regular basis. Every Saturday there is usually a lot of owners at the housing authority learning about the program. And we are very aggressive in terms of outreach to the owner associations.

It's important to understand, in the City of Los Angeles of the 17,000 owners I mentioned, 16,000 of those owners are mom and pop owners. So you really have to do a lot of outreach, a lot of educating because they rely on their rent income on the 1st of every month to make their mortgages, keep up their property, pay their people.

Chairman NEY. Thank you.

Mr. Burger and Mr. Shelton, you both are basically saying the current system is working. How would we make improvements to serve the community, more particularly in light of tight Federal budget environments, any other areas?

Mr. BURGER. I think we mentioned a couple of them in making the system more efficient, and at the site level down at the PLA level I think we need to use that money more effective than we have. I'm not sure that we need to increase all that much the funding to PHA level, particularly if it's not all being utilized. We need to use it better obviously.

And I think that it's important that we do look at the gap rates and look at the percentiles. I think we need to move the percentile up a little bit to areas like Los Angeles, that type of thing.

Chairman NEY. My last question, Mr. Triesch. What about—what problems do you encounter when you're overleased, and how does HUD work with you on that issue or do they or how do they?

Mr. TRIESCH. It's a bit of transition right now. To this point in time we could be overleased, if we had budget authority to be overleased. With the new regulations that have just gone into effect, as I understand it, we can no longer do that.

I can be 101 percent overleased this month as long as by year end I am not overleased. So my target is to be as close to 100 percent as I possibly can be at the end of my fiscal year. Our accountant works well with the HUD administrative financial staff. We have a good working relationship with them.

Chairman NEY. Thank you.

Mr. TRIESCH. My goal is to be at 100 percent even Steven, assuming the max—serving the maximum people that can be served in the city of Long Beach.

Chairman NEY. Okay. Thank you.

Also I asked a question—never gave Mr. Shelton a chance to answer. I'm sorry.

Mr. SHELTON. I was going to agree with Mr. Burger. I'm certain there are areas where the budget could help, but I think our primary objective in administering Section 8 at the site level is to make it as transparent as we can and as comparable as we can to how we treat regular market rate units.

Additional provisions make the process somewhat cumbersome. Anything that can be done to make the leasing process itself at the site level as easy as possible, I think would encourage more participation from our members and owners.

Chairman NEY. Thank you.

Congresswoman Waters.

Ms. WATERS. Thank you very much, Mr. Chairman.

One of the reasons I'm so pleased that you're here is because you will have an opportunity to understand what is happening here in California, and in the Los Angeles area in particular.

You have seen some of the information that was shared with you on the testimony of the cost of housing and the escalation of price that has taken place and continues to spiral upward, so that you get a real sense of what we are confronted with here.

Also, I'm very pleased that, you know, for once perhaps in many of the hearings that we have we are all together on this. I mean we have all of our associations, our owners, our PHAs, everybody singing from the similar hymn book, and that's good, that's very good.

We are all opposed to this idea of block granting. So what we need to do is what I think you have already come to understand is: How do we use this as an opportunity to straighten out a few of the wrinkles in the program? How do we come back with an alternative to this block granting and talk about what we can do to better serve all of our clients who need us so desperately?

And I'm also interested in working out some of the problems of the owners and the landlords. I think that's extremely important.

Now, you had some ideas, Mr. Triesch. You gave us a few recommendations. Would you kind of reiterate what you said to us in your recommendations?

Mr. TRIESCH. I sat down with staff yesterday afternoon, and I asked them: How can we really streamline administration of the program? And these just were ideas that came from brainstorming.

The first one was that we could enact a provision that limited landlords to just one increase a year. I'm sure that typically the Congressperson doesn't know what we have to go through when a landlord requests a rent increase.

If it's—we have to do an inspection of the property, if one hasn't been done within 120 days of the increase. So if somebody waits six months after the last one, we have to do a whole new inspection again.

Ordinary we have to do an amendment to the contract. We don't have to do a new contract, but the whole thing is time consuming. And if we limited just landlords just once, let them know up front you only get one a year, then I think that it would be a cost saving.

Ms. WATERS. Thank you. Would you hold that for a moment here?

Chairman NEY. That was one point I wanted to talk about. I just wanted—how many times can they—in a normal lease I've ever had when I rented, it's you get one shot per year, or sometimes you don't get a shot until the lease is done.

How many times a year can people do it?

Mr. TRIESCH. The way the program is set, we are allowed to enter into a lease—well, in Long Beach what we do, and I think most of us probably, initial lease for a year. After the initial lease for a year, we just follow California State law. It goes from month to month.

When it goes from month to month, by California State law, an owner can request a rent increase every month if he wanted to.

Chairman NEY. And Section 8 they can do the same thing?

Mr. TRIESCH. Well, we require 90 days, a 90-day notice. So they have to give a 90-day notice, every four years if they wanted to.

And we get them typically to—especially right now when costs are spiralling and the landlords are getting more and more rent.

Ms. WATERS. All right. Let me hear what the landlords think about that.

Mr. BURGER. Being a landlord, from my standpoint, once a year will work just fine for me. Actually, it will. We have to go through a lot of hoops also to make that application. And if we can do it once a year, we could work it.

Ms. WATERS. Mr. Shelton.

Mr. SHELTON. I'm not sure so I'm in agreement with Mr. Burger about the once-a-year-rent increase. I think—however, I think there is some sense that can be made, particularly in high cost areas where rents continue to escalate.

I would remind you, too, that a lot of the apartment markets across the country are not in the same financial situation that California or New York or South Florida is where the markets do pretty well. There are markets that we operate in that apartment owners are facing significant losses, vacancies are high, and occupancies are down and rents are down.

So I think that we just need to be—the key to me, I think, is communication, working with the local housing authorities, and I think some of those issues could be resolved.

Ms. WATERS. We really are interested in eliminating bureaucracy and streamlining the process, because I hear from both the tenants and landlords that it's too cumbersome in various ways. So we are—we are interested in your recommendations about how to do this so that the tenants are not hassled, and the landlords get as fair price as you can get, and it's done in a way that does not cause long waiting periods, et cetera. That's how I think we ought to use this time.

You know, the administration threw this out here, and we need to come back with something other than block granting where we can show we're all together. And I think we ought to be able to do something very positive about it.

What was the second one?

Mr. TRIESCH. The second one—you know, I'd like to say, you know, we might do well to get an organization, like NARO or FADA, to get a bunch of executive directors together to brainstorm, they could come up probably with a lot of good ideas for streamlining the program.

But the second one was with regard to the abatement process and inspections. Now, when we inspect, if the unit fails, they have 30 days to correct the deficiencies or it goes into abatement. If they don't correct it within the 30 days, then they have until the end of the following month, and we terminate the contract.

But we just said if they have 45 days to correct the deficiency or the contract is terminated, then you're going to be saving the time of multiple inspections, for example.

Ms. WATERS. How does that comport with state law that allows for deducting repair? I mean what happens here when, for example, if you gave 45 days, the tenant says "I've got a problem here, and they said, “I can’t wait. I’m going to do it myself, and I’m going to give you the bill,” how does that work or does it work?

Mr. TRIESCH. I don’t think I could address that.

Ms. WATERS. Don, do you know?

Mr. SMITH. Well, my feeling is, based on experience, that we intervene so rapidly, in terms of tenant complaints, and we have a good relationships with most owners, that that issue of inhabitability doesn’t come into play, only in those cases where we abate, and the situation is not resolvable, that may come into play.

Ms. WATERS. Okay. Well, let me ask you—and this will be the last question—you have mom and pop—a lot of mom and pop landlords. I think you said the overwhelming number of participants in the program are mom and pop.

What do we have that assists mom and pops in capital costs for the upkeep and repair of property? Low cost loans?

Mr. SMITH. There are rehab loans available through the city and most local jurisdictions have repair loans, I think.

Ms. WATERS. At low interest rates?

Mr. SMITH. Some are at low interest rates. Although compared to today’s market, they may not be adjusting as rapidly.

Ms. WATERS. Well, if we have—the majority of our participants are mom-and-pop operations, people who own 40 units——

Mr. SMITH. Basically 10 units and less, over 16,000 owners.

Ms. WATERS. Have you found that there’s a problem when their capital costs, like putting on a new roof or repairing a staircase, I mean capital—are they able to do it and get it done on time?

Mr. SMITH. If they get adequate rents over a significant period of time, they are able to amortize. But they are not generally able to get it immediately.

Ms. WATERS. Okay. Are they able—they are able, not able to. That’s a problem we need to look at?

What are you finding, Mr. Jackson?

Mr. CARLOS JACKSON. Well, the question you were asking is a real challenging one in that you have to have—well, many of the cities that we are operating in have an agreement with Section 8 and their own programs, and it’s really a local decision there. For the unincorporated areas we do have limited rehab money that we predominantly give it to the homeowner who is living in the unit. We have emergency grants for roof repair, but not really rental units.

Again, you look at the tier of priorities, we have a lot of seniors asking for emergency grants right after a rainstorm or like that.

We’ve done a lot in terms of campaigning to do our lease up. One of the things that we did was to sit down and look at the entire process and ask on each step: Does it make sense? Do we need to do this?

And during that process we also had a lengthy discussion with landlords as to where were the common areas of agreement and where were the differences so we could focus on those areas.

For example, one of the—one of the areas was landlords say it would take us too long to return the contracts. Well, when the inspector went out to conduct the inspections, we would have them take the contract and meet the landlord at the site at the same time for signature.

Through that process we found out that there is whatever we did we couldn't get a landlord to sign an agreement, with all the rents have been agreed to, everything has been agreed to, all we needed was the signature, we found a small group of landlords that were procrastinating.

But we—the inspections, again, we made some determinations on the housing quality standards. There are some things that we could say, "Look, give them 30 days to rectify and let them move in in the meantime.".

Again, if the unit remains vacant, it's lost income to the landlord. We were trying to accommodate those different kinds of things.

We had large orientations for tenants, counseling them about when you go out to an apartment, what to look for, housing counseling services, groups that will help the tenants go through the screening process.

Many of the things that will cost money—with the Department of Public Social Services we have data sharing, again so that we could streamline the information that has to be collected. And one of the things that should be done is we should be able to share data between agencies. That's a stumbling block right now.

We don't know if someone goes to a housing authority and gets rejected, and we go through the same process. It's a costly venture.

Ms. WATERS. Thank you. Thank you very much.

Chairman NEY. I want to thank all the panelists for your testimony. Thank you.

And we will move on to the second panel.

[Recess.]

Chairman NEY. The subcommittee will come to order. We want to welcome panel 2. And the order is Chanda Peters, a voucher recipient of Los Angeles; and Leona Thompson, a voucher recipient from Los Angeles; Mr. Beverly Martin, voucher recipient—or voucher program owner—I'm sorry—of Los Angeles; Larry Gross, Executive Director, Coalition for Economic Survival, Los Angeles; John Jackson, head organizer Los Angeles ACORN; and Jeff Farber, Chief Operating Officer, LA Family Housing Corporation of California; and Ruth Schwartz, Executive Director, Shelter Partnership, Incorporated, Los Angeles.

We have a timer. So when you hear—you'll hear two beeps, and then another beep, and that's the five minutes. But without objection, any additional testimony you have for the record will be submitted.

The five minutes is simply to try to make sure everybody gets their say in. So we'd like to make it longer, but then we'll have questions and you'll be able to respond.

So with that, we'll begin with Ms. Peters. Okay.

STATEMENT OF CHANDA PETERS, VOUCHER RECIPIENT, LOS ANGELES, CALIFORNIA

Ms. PETERS. Good morning, committee members. I want to thank you for the opportunity to present to you my personal testimony on this very important issue, Section 8 Housing Assistance Program and the Family Self-Sufficiency Program.

These two programs have not only changed my life, but also my children's lives dramatically for the better. My grandmother moved into the Eastchester Gardens Housing developments located in the Bronx, New York in the early 1950s. My mother grew up there, and I also grew up there.

Due to my mother's illness I, an only child, was raised on welfare, so our life was not easy. After an extremely abusive marriage, I left New York with my three daughters and moved to Los Angeles, where I started my life all over again.

With very little money, no job and having to start all over again, I had to get on public assistance. First I got on welfare, and then I signed up for the Section 8 program, because I simply could not afford to pay rent, utilities, the high cost of childcare, et cetera.

Then one day I received an invitation to participate in the GAIN program, Greater Avenues for Independence, where they pay for your school tuition, books, supplies, travel, and, most importantly, your childcare expenses.

I immediately signed up and registered at the Los Angeles Trade Technical College, where I took computer classes and office procedures. Shortly after I received another invitation to participate in the Family Self-Sufficiency Program, where they assist you with your career goals, such as providing you with educational development, technical, trade and vocational training, job counseling, as well as other services to help you become self-sufficient and eventually a homeowner. And again I did sign up for that.

The Family Self-Sufficiency Program especially changed my life for the better because through their partnerships with other agencies I was able to utilize the facilities for studying and had access to their computers to do my homework assignments.

The job counseling was extremely valuable and it motivated me to reach my goals. To this day I still use those skills for interviews for promotions that I seek.

After completing GAIN I worked for temp agencies all over Downtown Los Angeles until I was hired permanently, and I have been employed ever since.

I can't begin to express to you how important these programs and others that help encourage, inspire and support needy families to live in decent housing and get out of a situation that may seem hopeless.

This is how my life has been since: I've utilized the tools and services needed to upgrade my computer and office skills, preparing me for the job market.

I completed a two-year GAIN program, and I'm now gainfully employed full time since 1997, no longer on public assistance of any kind.

I completed the Family Self-Sufficiency Program, receiving over $14,000. And I am now a proud homeowner of a beautiful two-bedroom, two-and-a-half bath townhouse located in Inglewood, California.

I have two daughters attending UCLA, studying law, and one daughter at UC Riverside, studying veterinary medicine. My youngest attends University High, and they all have very high self-esteem because of my example, where I always tell them to reach for their dreams.

I'm now employed with the Housing Authority of the City of Los Angeles as an eligibility interviewer, helping other families with housing assistance.

And my mother no longer lives in Eastchester Gardens. I have moved her here, closer to her loved ones, this year just a few months ago, breaking a family cycle of a public assistance.

Every single day when I go to work and I return home—sorry—I'm so thankful. I truly enjoy my job, and I especially enjoy helping others.

It is my hope and prayer that these programs continue to assist other families to becoming self-sufficient.

Thank you for allowing me to give you my testimony, and I especially thank the Housing Authority of the City of Los Angeles.

Chairman NEY. Thank you for your wonderful testimony and a great story.

[The prepared statement of Chanda Peters can be found on page 505 in the appendix.]

Chairman NEY. Also, before we go on, without objection, for the record, we have a letter from Governor Gray Davis that we will submit for the record.

[The following information can be found on page 551 in the appendix.]

Chairman NEY. And with that, we will go to Ms. Thompson.

Ms. WATERS. Thank you very much, Mr. Chairman.

We need to know that the letter is a letter that's basically going in the same direction that we are all going in on Section 8. So we'll have that submitted.

Chairman NEY. Thank you.

STATEMENT OF LEONA THOMPSON, VOUCHER RECIPIENT, LOS ANGELES, CALIFORNIA

Ms. THOMPSON. Good morning, committee members. I am very honored to be here today, and I thank you each of you for this wonderful opportunity to share my personal testimony of how my life was transformed by the Section 8 Housing Assistance Program and the Family Self-Sufficiency Program. Excuse me.

As a recipient of these programs, I stand before you today as a self-sufficient individual, raising two sons in the heart of a very prominent Los Angeles community and helping others to achieve a level of independence that they possibly never imagined could exist.

After separating from my children's father, due to unfavorable circumstances, I had to step out on a faith that would propel me into a better way of living and economic security. Not knowing which way to go, nor did my pride allow me to turn to my family members or relatives, I ventured out into the deep with nowhere to go, only a prayer of restoration would be my only consolation.

A dear friend availed herself to me, allowing me to move in with nothing, as she and her two children struggled as well. We shared a comfortable, safe and secure place to live, hearty meals and transportation. I became a welfare recipient and fully utilized each opportunity presented to me to make a better life for my children.

My friend told me about a program she was participating in called GAP. This program, like GAIN, provided childcare assistance, bus fare, money for books and school supplies, just to name a few.

With only a high school education and some college, I knew that this would be an excellent opportunity to sharpen my job skills and choose a professional career path that would lead to economic independence.

Shortly after enrolling in the GAP program, the Northridge earthquake rocked Los Angeles. Due to the extreme damage of the building that I lived in, I was able to receive an emergency Section 8 voucher, which initially was supposed to only last 18 months, but thank God for the funding, it was able to be granted longer.

I finally was on the road to self-sufficiency. With the housing assistance payment program I began to have extra money to save and do extracurricular activities with my children that was almost impossible to do prior.

And also with the Section 8 voucher program I was able to secure a two-bedroom, two-bath apartment unit, with a pool, jacuzzi, 1200 square feet, which I would not have been able to afford otherwise.

I was informed about a new program that the housing authority was offering to clients who wanted to set further goals for themselves and graduate from all public assistance programs to become totally self-sufficient and homeowners, first-time homeowners. This program was called the Family Self-Sufficiency Program.

After mastering many office skills through vocational training I was able to secure better job positions and higher pay. By leaps and bounds I transcended from extremely low-income to well above the average low-income household within.

Within one year of participating in this program I surpassed the income limit to participate and financially succeeded in stabilizing my family's future.

I began to set aside money to purchase our first home. I received a check from the account that had been set aside for me while in the Family Self-Sufficiency Program. This was derived from the gradual increases in personal earnings that I received from my employment.

To date, I am in the process of purchasing a new home. And I owe a great deal of thanks and appreciation to the Housing Authority of the City of Los Angeles Section 8 program and the Family Self-Sufficiency Program for providing the resources and information, savings account and self-empowerment to rise above the elements that keep so many people in economic bondage.

My accomplishments since 1994: I received a certificate in medical assisting, a certificate in nurse assisting. I completed the GAP program. I've also successfully completed job trainings in medical front office, patient relations, and sales.

I've secured enrollment for my sons to attend college preparatory schools. I am currently an eligibility interviewer for the Housing Authority of the City of Los Angeles.

And I'm also enrolled in the PACE program at West Los Angeles College.

Chairman NEY. What do you do in your spare time?

Ms. THOMPSON. I thank God every day for where he's brought me from, and I'm happy and content with who I've become. And I plan to continue to help others who wish to step outside of the parameters of substandard living to well above average living.

Thank you for affording me this great opportunity to share my testimony thank you housing authority of the City of Los Angeles.

Chairman NEY. Thank you for your testimony.

[The prepared statement of Leona Thompson can be found on page 546 in the appendix.]

Chairman NEY. Mr. Martin.

STATEMENT OF BEVERLY MARTIN, OWNER/LANDLORD HOUSING UNITS, LOS ANGELES, CALIFORNIA

Mr. MARTIN. Who wants to follow these two young ladies? Anyone out here?

During the last three years, my wife and I became owner/landlords in the Los Angeles area. This experience is relatively new to me, to us, after retiring from the Los Angeles Unified School District as a former school principal for 10 years, and as assistant superintendent my final seven years.

This self-chosen investment as an owner/landlord has been both invigorating and gratifying.

In a brief period I have owned a triplex, a 7-unit building, and a 29-unit building. All of these buildings are located in the South Los Angeles area, with the major concentration of my time being devoted to the 29 unit complex.

Of the 29 units, 24 of the units are occupied by Section 8 voucher tenants. I appear before you today as a strong advocate and staunch supporter of the current structure and operation of the present Section 8 voucher program.

It is my understanding that legislation, via block grants to States, is being considered as an avenue for dissemination of funds for housing. I view this as a deterrent and another unnecessary layer of bureaucracy.

The concept would indeed bring a negative impact and could prove to be an impediment in providing assistance to those in greatest need of affordable housing.

As a resident of the State of California for 41 years, the State's financial and budget crisis has peaked in this state. This is a most inappropriate time to consider shifting these major housing responsibilities to the State of California. It would be devastating and would compound the present financial situation in California. Above all, the recipients, those to whom this service is intended, would suffer.

The current local administration of the Section 8 voucher program, though not flawless, is functioning extremely well in this city and the cliche of "If it ain't broke, don't fix it" is an appropriate statement at this time.

Last week as I read an article in a journal, a thought remained with me. In conclusion, allow me to share that thought with you, and I quote:

"Serious attention must be given to the awesome task, the awesome task of helping those who live below the poverty level, if we, as Americans, expect to maintain our image as a democracy.".

This thought has great merit. I'm available to respond to questions and to convey my personal views and opinions regarding the current local administration of the Section 8 voucher program in the Los Angeles area.

Thank you, Mr. Chairman.

Chairman NEY. Thank you, Mr. Martin.

[The prepared statement of Beverly Martin can be found on page 504 in the appendix.]

STATEMENT OF LARRY GROSS, EXECUTIVE DIRECTOR, COALITION FOR ECONOMIC SURVIVAL, LOS ANGELES, CALIFORNIA

Mr. GROSS. Chairman Ney and Congressmember Waters, thank you for the opportunity to offer testimony today.

I'm Larry Gross, Executive Director of the Coalition for Economic Survival. CES is a 30-year-old tenants' rights organization assisting tenants, including project-based Section 8 and housing choice voucher renters throughout the Southern California area. Many are here today.

CES also overseas a HUD Outreach and Training Grant to assist to tenants living in expiring Section 8 housing and buildings subject to HUD Mark-to-Market program.

I'm here today to express strong opposition to the Section 8 block granting proposal because we believe it will have a disastrous impact on the ability to provide affordable housing to low-income seniors and families.

Section 8 is a cornerstone of the Federal affordable housing program, providing vouchers to nearly 2 million households.

As with most government programs, there is room for improvement, but the voucher program is highly effective in providing needed housing assistance. One of its main problems is inadequate funding, which results in tenants waiting years to receive vouchers. And then once finally obtaining them, face losing them, unable to find landlords willing to accept the voucher within the time period allowed.

The Greater Los Angeles Area is facing one of the nation's most severe affordable housing crises. We can ill afford to take action which will further increase this crisis.

The block grant proposal will likely result in fewer Section 8 vouchers, when many more are needed. Block granting would eliminate the current structure where Congress adjusts funding each year to ensure covering all vouchers being used.

With block granting, Congress may decide on funding that has no correlation to voucher use, and on not providing adjustments for increases in rent. This approach would lead to the funding erosion of vouchers over time.

Vouchers allow poor people to achieve a degree of less poverty and the ability to live in less segregated communities. Block granting would do the opposite. States could reduce the value of the voucher, that would make it more difficult to use the vouchers to move into neighborhoods with more opportunities, jobs, better schools and less crime.

States could direct vouchers to specific developments and limit voucher use to certain neighborhoods. Thus, we can likely see the creation of voucher ghettos and barrios.

States could also increase tenants' rental payments. Households could end up paying far more than 30 percent of their income for rent, a 30-year Federal affordable housing standard.

We are greatly concerned about the impact on tenants living in housing where a mortgage pre-payment or project-based Section 8 opt-out has occurred.

Los Angeles has the largest stock of privately-owned HUD subsided housing. There's nearly 25,000 units at risk due to pre-payments and opt-outs. Latest figures indicated that we've already lost 8600 units in the county and over 3500 units in the city. This is one of the highest rates of pre-payments and opt-outs in the nation.

Currently, tenants in pre-payment and opt-out complexes for the most part are provided enhanced vouchers, which protect tenants from rent increases and displacement. Enhanced voucher tenants have the right to remain in their units as long as it's funded; and owners are mandated to accept the enhanced vouchers.

Block granting threatens these protections because States wouldn't be required to issue new enhanced vouchers. A state might decide only to provide regular vouchers. And this could result in tenants having to pay higher rents, thus, forced to move, and owners would be under no obligation to accept the vouchers, resulting in tenant displacement.

The City of Los Angeles has undertaken new initiatives to do its part to address affordable housing needs, such as creating a $100 million Housing Trust Fund and adopting a preservation program to address pre-payments and opt-outs.

These significant local actions assume a certain level of support and commitment of funding on the Federal level. Block granting would likely undermine LA's affordable housing efforts. Locally, affordable housing advocates have developed an effective working relationship with the Section 8 division of the city's housing authority.

Together we've been able to identify problems, develop effective approaches to deal with those problems, and implement programs to benefit tenants.

This relationship would be placed at risk to block granting, which limits administrative costs to 10 percent of the State's total funding, yet adding administrative responsibility.

In conclusion, we strongly urge that the Section 8 block grant proposal be firmly rejected. It would only bring increased hardship to our nation's low-income households, who are in dire need of securing affordable housing.

Thank you again for giving me this opportunity to provide you with the views of the Coalition for Economic Survival.

Chairman NEY. Thank you.

[The prepared statement of Larry Gross can be found on page 482 in the appendix.]

Chairman NEY. Mr. Jackson.

STATEMENT OF JOHN JACKSON, HEAD ORGANIZER, LOS ANGELES ACORN

Mr. JOHN JACKSON. Good morning. My name is John Jackson. I'm the head organizer for Los Angeles ACORN; and we'd like to thank subcommittee Chairman Bob Ney for holding these field hearings, and also to just salute Maxine Waters—Congressman Maxine Waters who has been there on the 1,001 issues that we hold near and dear to our hearts.

ACORN is the Association of Community Organization for Reform Now is the nation's largest organization of low- and moderate-income families in the country, with over 150,000 member families, as well as 700 neighborhood chapters, in a 51 cities across the country.

Since 1970, ACORN has taken action and won and worked on issues of concern to our members. Our priorities include: Better housing for first-time home buyers, improved quality of life issues in the low-income communities, living wage jobs, investments—I mean more investment from banks, as well as government, and better public schools.

Of course, if you look at saying "Say yes to children," we really firmly believe in a child's right to live, grow, and grow up healthy in low-income communities. And that means affordable childcare, as well as affordable housing.

We achieve these goals by building community organizations that have the power to implement changes through direct action, negotiation, legislation, voter participation.

Los Angeles—our Los Angeles chapter consists of 20 organizers of 550—5500 members. I don't do this. So let me just say, I don't really do public speaking.

Chairman NEY. You're doing all right.

Mr. JOHN JACKSON. But our office is really located walking distance from here, 3655 South Grand.

We have a 1-800 number, where folks call every day for 1,001 different reasons, some of which are around Section 8, some of which are around welfare, some of which are around childcare, just a lot of things that impact low-income community folks. And we just find ourselves being in a position to become problem solvers, rather than problem creators.

I'm here today to express ACORN's opposition to restructuring the Section 8 voucher program and the State block grant.

A lot of what I'm saying probably has already been said. So I probably would just like to set the testimony aside and speak from my heart a little bit here.

We experience every day here in Los Angeles people that are going through trials and tribulations with the Section 8 program. But more importantly, I think that it's building a dialogue. I'm jumping to the second part of it, and we'll submit this for public record.

But we actually have been innovative in trying to create a dialogue between the landlords and tenants. It's the notion of a common ground, a common space where folks can get a sense of who this man is to my right. And I don't know his name, but, you know, we have to tip our hat to people that are willing to take a chance and take a stand on renting to low-income folks, and see there is some value in doing so because it improves the quality of life in communities that are struggling under the yoke of gang violence and substandard schools in this country.

We have to salute them; we have to embrace them. And we have to do our part in educating our folks as to what their responsibilities are and engage with them with some dignity and respect and try to solve those problems rather than cast the burden upon the landlord. Because it isn't always the landlord. And we can't cast the blame or the burden on the tenant, because it isn't always the tenant. Or it's just sometimes just not enough information. And a streamlining of the process that landlords in increasing number can be comfortable in going into a program that can assist people in improving the life in these communities.

But we oppose the block grant system because we think welfare reform was a failure. We believe the sending of block rent down to the State of California, then down to Los Angeles, it just leads to less services rather than more services. And by the time it gets down to the people that it's intended for, they probably will not be—obviously it won't be enough of those services to go around. It's not enough right now.

But when you look at the crisis that the State of California is in right now, we love California, but we can't trust that these services to get down to the people that they deserve to go to with the $38 billion budget deficit.

We just believe somehow some that of money just will go to unintended places and just representing the poor folks' organization, we would just be shocked and appalled that we can't afford to have any less than what the people are deserving of today.

We appreciate you being here. This is an amazing thing to see a Republican here in a Democratic district to try to problem solve. We salute you. We salute—we salute you. We salute you for wanting to build bridges rather than walls and trying to problem solve rather than problem create.

Thank you.

Chairman NEY. I appreciate that. I also want to note for the record, I'm not sure of the accuracy, but I think my old district is 16 percent Republican. You may have more Republicans than I do. So I'm pretty comfortable.

Thank you. I appreciate your comment.

Mr. JOHN JACKSON. We welcome you, and we appreciate you being here.

Chairman NEY. Thank you.

[The prepared statement of John Jackson can be found on page 500 in the appendix.]

STATEMENT OF JEFF FARBER, CHIEF OPERATING OFFICER, LA FAMILY HOUSING CORPORATION

Mr. FARBER. Good morning, Chairman Ney, ranking member Waters, and staff of the subcommittee.

I thank you for the opportunity to testify today. I'm Jeff Farber, Chief Operating Officer for LA Family Housing. Founded in 1983, our organization is the leading nonprofit housing development corporation that provides housing and supportive services to over 14,000 homeless and low-income families and individuals in Los Angeles.

We provide a range of services from emergency shelter, transitional housing, permanent affordable housing, and home ownership opportunities.

We oppose the proposal to convert the Section 8 Housing Voucher Program into a block grant to the States. We consider Section 8 vouchers to be an essential component of the solutions to affordable housing crisis in Los Angeles and across the nation, production and preservation and income subsidies.

We operate—our organization participates in a variety of partnerships with the housing authorities of the City and County of Los Angeles. Local leadership of the housing authorities has led to the creation of many innovative programs promoting affordable housing opportunities to those in need, including the nationally recognized Homeless Section 8 Program.

Through our partnership with both housing authorities, we are able to place 100 to 150 homeless individuals and families in safe, decent and affordable housing annually. In this model, we refer Section 8 eligible households to the respective housing authority and provide them with the support services they need to gain tenant skills and maintain housing.

Through this program we have assisted over 900 households secure and maintain affordable housing in the last 10 years. Many of these households have participated in Family Self-Sufficiency Programs and have gone on to become homeowners.

The Housing Assistance for Needy Families Act attempts to address the administration of the current voucher program. However, its approach is heavy-handed and fails to recognize the improvements made nationally to the program over the last several years.

Nationwide utilization of the program has increased. And as you heard this morning, many of our housing authorities are leasing up at 100 percent or over.

Additionally, switching from one set of administrative rules known and used by all jurisdictions to a separate set of rules used by each state creates incredible complications and difficulties.

Block granting of the program adds an additional layer of bureaucracy. And as John so well stated, when you have a problem in a State, and you add in another funding source to it, you don't know how that bureaucracy will handle that funding source.

Finally, relying on local codes to determine housing quality creates the potential for rules to vary from locality to locality.

HANF fails to guarantee that the funding of the Housing Voucher Program will keep pace with housings costs. Los Angeles is in an affordable housing crisis. Almost 75 percent of families with annual incomes of $26,000 or less, which is 120,000 families, spend more than half of their income on rent.

In the City of Los Angeles a two-bedroom apartment rents for anywhere from 1,100 to $1,300 per month. Using the HUD guideline, that a family should not spend more than 30 percent of their income on housing costs, a household needs to earn over $21 an hour or $44,000 per year just to afford a two-bedroom apartment.

Section 8 is a life line for many of our city's working poor: Janitors, fast food workers, nurses aids, security officers, cashiers, who otherwise would find themselves homeless and be knocking on the doors of my agency for assistance if that Section 8 voucher was not available to them.

HANF places these hard-working families at great risk. States—based on the system set up under HANF, States would either have to contribute their own funds or scale back their programs in the following manner: Reducing the number of families that receive housing vouchers, shifting rent burdens to families participating in the program, limiting opportunities to use vouchers to escape high-poverty areas, and shifting housing assistance from poor families to moderate-income families.

Each of these changes would damage the program and move it from its mission of using a market-based approach that allows voucher participants to move to apartments in areas of their choice.

Congress can improve the administration and utilization of housing vouchers in a manner that is not detrimental to the well-being of families and does not disrupt the process of the existing program.

HUD already has the authority to reallocate unused vouchers from one administering agency to another. To add strength to this policy, Congress should consider making reallocation provisions that automatically move vouchers from communities that cannot use them to those that can in the same region.

Congress should look at reforms that incentivize owners. A couple of examples are more flexibility regarding inspections and an electronic payment system for the monthly payments that go to owners.

Congress should also provide funds to assist housing voucher holders find and access available housing in their area. Our local housing authorities have been masters at this and have worked with a wide network of nonprofits to guarantee that households are able to find and maintain affordable housing using the voucher program.

Thank you for your opportunity to testify.

Chairman NEY. Thank you, Mr. Farber.

[The prepared statement of Jeff Farber can be found on page 474 in the appendix.]

Chairman NEY. Ms. Schwartz.

STATEMENT OF RUTH SCHWARTZ, EXECUTIVE DIRECTOR, SHELTER PARTNERSHIP

Ms. SCHWARTZ. Good afternoon. It's now noon. Chairman Ney and Ranking Member Waters, who is a long-standing affordable housing advocate. And I just have to say thank you so much for all that you do.

I also wanted to acknowledge that Mayor Hahn's housing deputy is here today, Sara Dusseault. I think the Mayor has on record support also of the position taken——

Chairman NEY. Thank you.

Ms. SCHWARTZ.——by most of the folks.

Chairman NEY. Sorry to interrupt. If I could, just for the record, we have a letter for the record, which Congresswoman Waters may want to make a comment on, to be submitted without objection.

Ms. WATERS. Well, I'd like to move that this letter be inserted into the record. And it starts out in no uncertain way expressing its opposition to H.R. 1841.

The Mayor is to be commended, not only for understanding the housing needs of the city, but for having put together the $100,000,000 program for housing assistance in this city. It's extraordinary. He is a leader in the nation on this. And we are very, very pleased that he is providing this kind of leadership.

Chairman NEY. Without objection, it's part of the record.

We stopped the clock so it didn't come off your time.

Ms. SCHWARTZ. My name is Ruth Schwartz, and I'm the Executive Director of Shelter Partnership.

We were established in 1985. And what we do is fairly unique. We provide technical assistance and resource development for agencies developing housing for homeless people in all of Los Angeles County.

As you know, Los Angeles County has a huge problem with aimlessness. It's estimated as many as 80,000 people are homeless nightly in the county. And I'm talking about people living in shelters, on the street, abandoned buildings and the like, about half of whom are located in the City of Los Angeles.

Based on my 18 years experience—and I know I look much younger than to have 18 years experience at anything, but based on that I think without doubt the most successful program that has been developed for homeless families and individuals in Los Angeles County has been the Section 8 homeless assistance programs and the programs that have resulted since then.

Without doubt, I mean you can provide all the services you want in the world to homeless people, but if you don't have housing, you don't have a program. And you don't have an exit from aimlessness. And that's documented from all the national studies as well. The most important intervention in the life of a homeless person is stable, affordable, and in some cases, supported housing.

And I just want to congratulate the City of Los Angeles and the County of Los Angeles for being incredible leaders in this area. Since 1991, we've had a homeless assistance program, way before New York or anywhere else. So we've done it well. We've got over 12,000 people who were previously homeless, are now receiving Section 8 assistance, and that's families who are poor, including families that have experienced domestic violence and other incidents, people with mental illness, chronic mental illness who have lived on the street, as well as people living with HIV/AIDS thousands and thousands of people who were previously homeless. And there's a very high incidence of aimlessness of people with HIV/AIDS.

These are very successful partnerships, and they include strong collaborations of community-based organizations, from groups like Watts Labor Community Action Committee, Minority Aids Project in the Congresswoman's district, to traditional—more traditional mental health agencies and family agencies, like LA Family Housing throughout the City and County of Los Angeles.

They've also been a great partnership, and I think this is why it's so important that things remain local. I mean local is what's relevant. We've been able to strategize and combine other kinds of Federal funds. So it's not all on the Section 8 side. Things like the FEMA funds, other HUD funds like the HOPA grant funds, as well as State Department of Mental Health dollars. We've got a great program for chronically mentally ill people from the State legislature.

We are combining those funds with Section 8 funds and really getting people who are really what we consider the most tragic victims of aimlessness into housing. And the support services are paid for through the State Department of Mental Health. So we've got some wonderful partnerships and partnerships that I think we can all be very proud of in Los Angeles.

I'd also like to just mention something that hasn't been mentioned before, and that's having to do with project basing. And this is an area that maybe the oversight committee can help us solve.

In the 2001 Federal Appropriations Act, it was agreed that housing authorities could again increase the number of project-based units that would be allowable and give more local discretion in that. However, HUD has never issued final rules. All they did, after a long time, was submit those rules to OMB, only to recently withdraw those rules.

So we have—so places like Los Angeles, where unfortunately we do have high concentrations of poverty, a lot because of families coming into the community from other countries, we can't really effectively use those project-based certificates with nonprofit developments. And we need those new rules to be released by HUD and find out why they haven't been.

Just in conclusion, as you've heard the State through the $1,000,000,000 state Housing Trust Fund the city through the $100,000,000 Trust Fund and also the County of Los Angeles through their special initiative through industry funds is really doing—is recognizing the importance of housing and being able to combine that with the Section 8 program on a local administrative level would be lost if we were to not continue the program as it is.

Thank you.

Chairman NEY. Thank you.

[The prepared statement of Ruth Schwartz can be found on page 507 in the appendix.]

Chairman NEY. I just wanted to note, we will follow up on the rules. In the expansiveness of government and all the agencies you have—and that's why I'm glad you've raised it here today—we lose track of what went where and when where it's at. And you raised a very good issue: Where are those rules? What's happening? We will continue to follow up on that.

Ms. SCHWARTZ. Okay. Thank you. I'll get you some more information, too.

Chairman NEY. And I would note you might have gotten somebody in trouble today because whoever you were working with 18 years ago violated child labor laws.

Ms. SCHWARTZ. Yeah that's probably true.

Chairman NEY. You should warn them.

Ms. SCHWARTZ. Yeah, I think it's true. I think it's true.

Chairman NEY. Having said that, I have one quick question. And this is: Sometimes we've had them; sometimes we haven't had set asides. For example, set aside Section 8 for person specifically and/or families with aimlessness or HIV.

What do you think about—and again, sometimes we've have and I understand sometimes we haven't. What do you think about set asides and how that impacts this issue?

Ms. SCHWARTZ. I'm really supportive of set asides for the people that are the most extremely poor and needy, especially those people who have no home to call home.

I think that the program, as it started in Los Angeles, was because HUD wanted to demonstrate how—that the needy—the most needy could be served.

Those set asides aren't part of the priorities today, but yet there's is a commitment locally to continue that and still serve and other households. And personally I think that's a good thing.

Chairman NEY. Mr. Gross, I had a question. It goes to the 30 percent of tenant income or the 40 percent. And I wondered if you had an opinion on that. And also, you know, the unique circumstance where tenants sometimes are now paying 70 percent, which is obviously a large strain on them.

Any thoughts on going above the 30 or 40?

Mr. GROSS. Well, as was pointed out in Los Angeles, most renters are in, or a good percentage of renters, who are not on Section 8, are already paying way over 50 percent of their income.

When that happens of course their options, they cut back on food, on clothing, on the ability to take care of their children and healthcare. And so we would oppose that. I think that's the one good thing about Section 8 right now. That it is that percentage of income to rent.

Under this block renting proposal, we can see that figure rise, you know, much higher. Out of people's reach of being able to afford housing, even with a voucher.

Chairman NEY. Thank you. And my last question, Mr. Jackson: You mentioned about building a dialogue with the landlords and tenants. And would you describe a few of the challenges you have in building that dialogue, and, you know, does the current system help with that, or are there ways that we can help the current system to do more with dialogue? Because that's important, I think, communication and dialogue.

Mr. JOHN JACKSON. We did do some internal trainings—we do some internal trainings called the Common Ground Forum, which we try to examine, explore one of the things that are we allowing to keep us apart, and then we try to explore those things that are bigger than those things that are keeping us apart which we have in common, which is usually the quality of life in the community, because if you are a landlord in a particular community, and it's starting to deteriorate, there needs to be a dialogue about how to fix that. And we just need to figure out a way to separate perception from reality.

Could you guys assist in that? Of course. There should be some way that landlords as well as tenants—I think that there is perceptions, and those perceptions become reality because of the lack of dialogue, not because of dialogue.

And at every turn of the road there needs to be more input for those programs by the people it's intended to serve.

John, Maxine Waters' staffperson, had a challenge of getting me to sit here and speak on behalf of this organization because I just feel more comfortable helping to prepare somebody that actually could say and articulate what their trials and tribulations were.

God bless these sisters that are successful, and we tip our hat to them. But there is also another side of that that welfare reform hasn't been the ideal, dream forum. And how is that challenge getting to housing and how it interacts with housing needs to be a part of that equation as well.

So could you guys help and what specific ways that you could help? I don't know what the specific ways that you can help, but I'm sure talented staff people out of these talented Congressional offices certainly could be a part of that equation. And we'd love to work with them to do that.

Chairman NEY. They should contract with you to get some pay raises for the advocates that you have.

In all seriousness, one other question I have of you is: Let's say, hypothetically, we do a block renting, and we have iron clad protection for Section 8 voucher recipients. Could you still trust, not the State of California, but would you be comfortable to trust a State that they will carry out protections for voucher recipients?

VOICE. No.

Chairman NEY. Let's hear from Mr. Jackson first.

Mr. JOHN JACKSON. It's such an uneven process. California is so vast that from county to county to county, there would not be uniformity. And quite frankly, Section 8 is a Federal program, and the Federal government has the obligation to see to the equity that's placed into it, not necessarily the States or the counties or the cities. And they're not going to own that obligation as well as we would trust that the Federal government would.

Chairman NEY. One thing, and I'm concluding my questions and we'll move on to my colleague, but I did want to note one thing. If we did do this, we had block granting, I don't know how you write in certain protections. The thing I wanted to mention and I have a great state, the State of Ohio, and a lot of great people. However, in the budget process, because they were up against a wall like California, Head Start monies, we all know the basic 101 beginning law, if you're in office, you do not supplant Federal dollars with Federal dollars. That is course No. 101.

In the State of Ohio, during the budget process they took our Head Start monies, went in, took $300,000,000 of HANF monies and applied the 300 million to the Head Start monies. Now, they appropriated it. When I was raised it was called theft; but they appropriated the money.

Now, clearly, I made this objection known to everybody that did it, you know, clearly you don't supplant Federal with Federal. They did it. But in this whole process the one overriding question I've always had is: How do you write something so iron clad that it can't be done? Because it's a pretty iron clad thing, Federal to Federal. I'm asking the overriding—and I'm speaking as a former state legislator, and I'm looking at that side of it now as a Federal member.

Mr. JOHN JACKSON. The punishment should be equal to the crime. I mean if people are dying as a result of the theft and thievery and thuggery, then the punishment—because they certainly right now in California they have a three strikes you're out law. You can be punished for a misdemeanor and wind up in prison for the rest of your life. If in fact the State of California, or any state for that matter, has the gall to take to money that's been allocated for poor folks and utilize it for what would not be considered the greater good, in their mind they may attempt to justify it that way, but when you look at it as in—through the eyes of the people that those funds were intended for in the first place, it's a whole totally different answer.

So I would say let the punishment fit the crime and make, you know, the crime more severe as the devastation and how it affects people's lives.

Chairman NEY. Congresswoman Waters.

Ms. WATERS. Thank you very much, Mr. Chairman.

I can't tell you how proud I am of both of our panels that have appeared here today. I am so proud not only of the panelists, but their ability to articulate the partnerships and the working relationships here in this area that help to make Section 8 a workable, viable program.

And I think in all that you've heard, we certainly will go back to the Congress of the United States looking at this legislation and understanding even better why there is so much opposition to the legislation and why we are all together. There is such a consensus of opposition here in California and in the Los Angeles area.

Let me just say to Ms. Peters and Ms. Thompson, you heard the people in this room just start to applaud you. And I think you can see from our reactions up here how absolutely proud we are of you.

You have literally taken tools that have been offered to you, and you've used them in ways that we want so many people to be able to do. Not only are we proud of you and the work that you're doing and the opportunity that's been afforded to you to help others, but, you know, I'm going to follow up, and we're going to not only keep up with you. We want you to come and tell your stories to some of the other men and women in some of the places where the message has not gotten to.

So we are just going delighted to have you here today with stories of success and positive actions that led to a whole new lifestyle for you.

We are very proud of you, Bev Martin, I guess I've been knowing for 100 percent. I'm 100 and he is 101. And I didn't realize that he had retired, and that he was now an apartment owner providing rental services to people who need them so desperately.

Thank you, Bev for, your new career, and again, I would like to use this legislation as an opportunity to look at other ways by which we can strengthen the program.

Certainly number one is I want more money. I'm a tax and spend liberal. I want more money, more services for people. I just think that, you know, this nation could invest more.

And I raised some questions earlier today about mom and pop or smaller landlords and capital costs and all of that, and I will certainly follow up looking at that. But again, to have a 20—a unit—a building with 29 units, and I think you said 24 of them occupied with Section 8, it sends a real message out there to other apartment owners that this can be done, this can work. And thank you very much for that.

Larry Gross, you guys have been on the cutting edge of organizing for a long time now. And I really do appreciate that because we have so many people who need you, who need advocates who cannot only be in the streets, but in Washington and in places like this, speaking on behalf of people and helping them to be able to negotiate their environment and all that goes on in these complicated processes. You have a long and rich history, and just you continue to be there.

Mr. GROSS. Thank you very much.

Ms. WATERS. Now, John talks about not wanting to be in these kinds of arenas testifying. Now, John, we know, you're an organizer extraordinaire, but sometimes the organizer has to come from the streets and get into a room like this and help to merge the work of organizing with the work of this kind of legislative advocacy, and you do it well.

You do it absolutely well. When you talk about speaking from the heart, that's what we need more of. We need more people who are willing to throw aside the paper and just talk.

I appreciate the work that you do every day and also the work that you all do in, particularly ACORN on predatory lending that has been one of the hallmarks of your work here in the city. You've been at the city level, the State level and the Federal level.

We are going to try and try desperately to do a bipartisan effort on that new predatory lending bill. And we are going to look to you to help us work and negotiate that.

Mr. Farber and Ms. Schwartz, I thank you both for being here. Again, we have the thousands of renters and homeless folks who are out there not knowing or understanding which way to go. And if it were not for you guys, we would not have the kind of accomplishments that you've been able to describe here today.

It is my greatest wish that we can keep evolving with this work so that we would not only be able to sing the praises of what has been accomplished so far with our government, but that we can move it to another level.

I dream of the day when I can go into Downtown Los Angeles and not step over bodies on the street. I dream of the day where we won't have a Patch Park of the homeless who convene there every day. Many of those people are from my district.

When I go through Downtown Los Angeles, I begin to hear the calls "Hey, Maxine. Hey, Ms. Waters." These are folks who, you know, came from different places, but many of them from so-called South Los Angeles, who have ended up down in Downtown Los Angeles.

And I thank you for all that we have done to get a portion of them off the streets, those people, and into Section 8 assistance so that they are now into units where the quality of life has changed for them.

To the landlords, let me just say I dream of a day when we'll have some assistance where landlords can take the folks living in their units and provide services above and beyond what landlords do.

For example, I just believe that you have a building of 24 Section 8 folks, that the same kind of opportunities that have been extended through the housing authorities for those who were lucky enough to get connected, they could be unveiled and unfolded where ongoing meetings are going on in the apartment building, and people are being educated about the programs and the possibilities and get them up and out and doing things and changing their lives.

Let me just say—and I'm kind of full with all of this now—that your testimony has been extremely important and meaningful here today. And really much of what you have said today should help restore everyone's faith in the possibilities of this government to be of an assistance to the least of these.

I oftentimes am very frustrated and sometimes angry about what I see in the poor people and the lack of opportunity. But you know, each night that I go to bed, I go to bed filled with a little bit more optimism that tomorrow can be better, and that we can do it better.

And with your being here today I know that tomorrow and the next day and the next day we can do even more to assist the many people of this nation to be able to have a decent quality of life.

Most people simply want a decent home and roof over their heads. They want to be able to feed their families. They want transportation to get back and forth to their jobs and to be able to take care of their business.

They want their children—Ms. Peters said "My children at UCLA." We all—everybody would like to have the opportunity to support their children to be able to be educated.

So I believe in—I believe in this country, but I believe more in each of us. This country will only be what we make it. I did not intend to be on the soap box today, but I could not help it. I'm just inspired by your presence.

Thank you very much.

Chairman NEY. Well, I'm glad you got on that soap box. It helps me listen to a few things.

I just want to thank you for some great testimony, compelling advocacy you do, the personal stories you have shared with us.

And like the movie "Take It Forward"—Pay It Forward"—I think it's "Pay It Forward"—I know you're doing that with other people in this area across the country.

This has helped me a lot to be out here. We come from different districts. A town of 30,000 people to me is Los Angeles. Where I come from that's a huge, huge city. So we have some different concerns. But again, people I represent need housing. People out here need housing.

I don't know if either Congresswoman Waters and I have ever been able to tell persons that need help of what they're registered. We don't care. We just help people that need help. The government needs to be able to step forward to do that.

We may disagree on some things philosophically, but we agree on trying to make the system work. I'm thankful to be here because you have a whole different cost situation that is very, very difficult that we don't have, but yet we have some lack of space to help individuals.

So this personally helps me, as Chairman of the subcommittee, and I appreciate the hospitality of my colleague, Congresswoman Maxine Waters, of having us here, appreciate the staff, both sides, to be able to make this hearing come about.

And we've had a lot of trauma in this country over the course of its history. We've had a lot of trauma over the last couple years. But America will go on and continue and, hopefully, make itself better. And this is where America does her work.

So I'm very pleased that we have been able to come outside the Capitol and bring the Capitol here and hear from the people right on the front firing line who live every single day with trying to help others.

I've always said this many times. In 50 to 60 years, no one may know our names, any of us, but we will have rested, and our generations to follow can have comfort that everybody tried to do something to help other people. And down the road somebody will be in housing and going to college or get a good job, and it's because of things you all are doing today.

So I'll give you an awful lot of credit for that. The energetic give-and-take of public debate, this is what it's about. We appreciate it.

I want to thank my colleague for taking her time for two days straight now, after coming off a marathon session, I think we voted at 2:30 in the morning one day last week.

So I want to thank Congresswoman Waters for sharing her time and all of you and her staff and all of you.

And we will leave the record open for 30 days. There might be additional questions without objection that will conclude this hearing.

Ms. WATERS. Let me break all the rules of committee hearings and ask this great Los Angeles office to stand with me and this Chairman for the work that he is doing and his presence here.

Okay. This is a wonderful facility that we are in, the California Science Center, and Monique Hudson, Government Affairs Director, and Carl Phillips, would you give them a big round of applause.

And for those of you who have not visited this facility and you have not seen the great exhibits and all the work that many of us put in for years in the California State Assembly, you better come and bring your children.

Okay. Thank you very much.

[Whereupon, the subcommittee was adjourned.]

APPENDIX

May 22, 2003

Opening Statement of the Honorable Bob Ney
Chairman
Subcommittee on Housing and Community Opportunity
Committee on Financial Services

"The Section 8 Housing Assistance Program: Promoting Decent Affordable Housing for Families and Individuals who Rent"

Thursday, May 22, 2003

Today, the Subcommittee will hold the first in a series of hearings to examine the current operation and administration of the Section 8 Housing Choice Voucher program and review various proposals intended to make the program more efficient and cost effective.

The Section 8 Housing Assistance Payment Program was authorized under Section 8 of the U.S. Housing Act of 1937, and it is the major vehicle providing rental assistance to low-income families and individuals. Commonly referred to as the Section 8 voucher program, it is the largest program in the federal government that subsidizes the housing costs of low-income households. It is administered federally, by HUD, but is managed locally by the public housing authorities (PHAs).

For FY2003, over $12 billion was provided for the voucher program, accounting for more than a third of HUD's discretionary budget. Through the Housing Choice Voucher program, eligible families can receive subsidies, called vouchers, to reduce their rent in housing units owned by private landlords. This is different from the Public Housing program, which allows eligible families to move into low rent housing units owned by the federal government.

Over the years, the program has often been criticized for its inefficiency; more than a billion dollars are recaptured from the program every year, despite long waiting lists for vouchers in many communities. The rising cost of the Section 8 program and some of the administrative concerns have caused many in Congress and the Administration to conclude that the program is in need of reform.

Public Law 108-7, the Omnibus Appropriations bill, adopted proposals to address the rising cost of the Section 8 program. Provisions were included that, for the first time, based the appropriation for the Section 8 renewal program on the total amount necessary to renew all housing units currently under lease rather than on the baseline number of units allotted to each PHA.

The rationale for this change was that there has been no significant improvement in the utilization rate of these funds for the last five years. The omnibus bill also created a central reserve fund that PHAs can use to supplement the rental subsidy costs of vouchers not reflected in their annual financial statements. This would allow PHAs to lease up to their baseline levels if possible.

In its FY 2004 budget proposal, the Administration proposed converting the Section 8 Housing Choice Voucher program into a state-administered block grant. This legislation would dramatically change the way the Section 8 voucher program is funded and operated. The Administration's proposal would convert the Section 8 tenant-based voucher program and the Section 8 project-based voucher program to a state-run block grant called Housing Assistance for Needy Families (HANF).

While I recognize, as the Administration does, that we must constantly seek ways to improve America's communities and strengthen housing opportunities for all citizens, particularly our poor, I also recognize that the issue of reforming Section 8 is a contentious one. However, it is an issue that deserves a sustained debate so that all interested parties are heard. To that end, I intend to hold a series of hearings on the overall Section 8 program and the Administration's HANF proposal, receiving testimony from groups and individuals across the spectrum. This is a very important discussion and is one that I will be fully engaged in the days ahead.

With us today to discuss the Administration's view is Mr. Michael Liu, Assistant Secretary for Public and Indian Housing at HUD. The Administration has put forth a sweeping proposal and, without objection, I would like to be lenient with the allotted time for testimony today to give the Assistant Secretary the opportunity to explain the Administration's proposal.

Welcome Mr. Liu; we look forward to your testimony. Now I would like to recognize the Gentlewoman from California and the Subcommittee's Ranking Member, Ms. Waters.

House
Committee on Financial Services
Michael G. Oxley (OH), Chairman
News

Opening Statement

Chairman Michael G. Oxley

Committee on Financial Services

Subcommittee on Housing and Community Opportunity

The Section 8 Housing Assistance Program: Promoting Decent Affordable Housing for Families and Individuals who Rent

May 22, 2003

I want to commend Chairman Ney for scheduling this hearing, the first in a series of hearings the Subcommittee will hold to examine the current operation and administration of the Section 8 Housing Assistance Program.

The Section 8 Housing Assistance Program is the major vehicle for providing rental assistance to low-income families and individuals. While this program is an important tool in combating the affordable housing crisis, it has been criticized for its inefficiency and ever-increasing cost. Today, this program consumes over 50 percent of HUD's budget, and despite long waiting lists for vouchers in many communities, more than a $1 billion dollars are recaptured from the program each year.

The rising cost of the Section 8 program and some of the administrative concerns have caused many in Congress to conclude that the program is in need of reform. Over the past several years, proposals to improve the program have been introduced and considered. Yet, while there is general agreement that changes are necessary, no clear consensus has emerged on just what those changes should be.

This year, the Administration in its FY 2004 budget proposed converting the Section 8 Housing Choice Voucher program into a state-administered block grant to be called Housing Assistance for Needy Families. This proposal would dramatically change the way the Section 8 voucher program is funded and operated.

Clearly, it is prudent for this Committee to reexamine the Section 8 program and determine how best to reform the program to make it more cost-effective and efficient. Given the Administration's new proposal, it is only fitting to have the Administration testify at our first hearing on this important issue. We look forward to Secretary Liu's testimony and to working with the Administration and other interested parties to determine how we can better serve the families and individuals who need assistance in finding and maintaining decent affordable housing.

STATEMENT OF THE HONORABLE WM. LACY CLAY
Before the
Subcommittee on Housing and Community Development
"Housing Assistance for Needy Families Act"
May 22, 2003

Good afternoon Mr. Chairman, Ranking Member Waters and Members of the committee, and witnesses.

I have been disturbed since the budget for 2004 was released and continue to be concerned at the direction that all of the programs for housing seem to be going. Most or all are under-funded or not funded at all. This is an area (housing) that the President claims as a priority for his Administration. Plenty of advertisement and fancy named programs are available; however there is no new money.

Now Section 8 vouchers, which are in short supply, are proposed to be placed in a voucher grant program for the States in 2005. We know that that will not work. When we consider the dire financial straits most states are in at the present, with no relief in sight, it would be a disaster to place Section 8 vouchers in block grants. States would have no choice than to attempt to manipulate funds for the purpose of shortfalls in other areas. This should not even be considered as a proposal unless the intent is to destroy and severely cut the Section 8 program.

Mr. Chairman I ask unanimous consent to submit my statement to the record.

May 22, 2003

Hearing: The Section 8 Housing Assistance Program, Promoting Decent Affordable Housing for Families and Individuals Who Rent

Rep. Katherine Harris' Statement:

Thank you, Mr. Chairman. I wish to express my appreciation for your willingness to conduct this hearing. I also wish to thank Mr. Liu (Assistant Secretary, Public and Indian Housing, HUD) for his testimony.

This afternoon, we consider a crucial program that addresses the continuing need to provide rental assistance to low-income families and individuals.

I continue to believe in the vitality of the Section 8 Housing Assistance Program as an essential means of fulfilling the fundamental obligation of a decent society to ensure that every man, woman, and child has access to quality, affordable housing.

I look forward to our continued consideration of this critical matter and being fully engaged in the debate that will define methods to improve current programs.

Thank you.

STATEMENT BY REP. BERNARD SANDERS AGAINST BLOCK GRANTING THE SECTION 8 VOUCHER PROGRAM

Mr. Chairman, thank you for holding this hearing.

At a time when we are in the middle of an affordable housing crisis; when an increasing number of working families, the elderly, veterans, the mentally ill and the poor are living in their cars, in homeless shelters, or simply out on the street; when more than 4 million American households paid over half of their limited incomes on housing; when 28 million Americans are paying more than 30 percent of their limited incomes on housing; and when 3.5 million people will experience homelessness in the United States this year including 1.35 million children it is outrageous that the Bush Administration is attempting to make the affordable housing crisis worse by block granting the Section 8 program.

Currently, 2.1 million households in the United States depend on Section 8 rental vouchers at an annual cost of over $12 billion so that they do not have to sleep out on the street. Yet, federal funding for the Section 8 program has dropped dramatically. For example, in FY 2001, 79,000 new Section 8 vouchers were appropriated. That number dropped to only 18,000 vouchers in FY 2002, and in FY 2003 no new Section 8 vouchers were appropriated. As a result of this chronic under-funding, 3 out of 4 low-income families eligible for Section 8 vouchers do not receive any federal housing assistance at all. And if the Bush Administration proposal were signed into law it would reduce the number of families that receive Section 8 vouchers.

For example, an estimated 80,000 Section 8 vouchers would be permanently lost in the transition to the Bush Administration's block grant proposal.

In addition, this proposal would allow states to lower the dollar amount extremely low income families receive under the Section 8 program, and would impose a $600 a year rent hike on the nation's most vulnerable families in America.

Further, block granting the program to the states means that the administration of the program will be physically moved away from the approximate 2,600 local housing authorities to 50 state capitals, potentially hundreds of miles away. HUD has budgeted $100 million for this transition in the first year alone – this money would be much better spent on new Section 8 vouchers or constructing more affordable housing.

Additionally, this proposal would allow states to cut costs by shifting housing assistance from extremely low income to higher-income families. Specifically, this proposal would authorize HUD to allow states to use up to 45 percent of vouchers to serve households at any level, with no upper income limit. As I understand it, this could allow the States to subsidize the rental housing of multi-billionaires like Warren Buffet.

Mr. Chairman, in short this program would exacerbate the affordable housing crisis and should not be signed into law. Instead, we must increase funding for affordable housing by passing the National Affordable Housing Trust Fund Act (H.R. 1102) that currently has 195 co-sponsors and has been endorsed by over 4,000 national, local and state groups from throughout the country including bakers, unions, business leaders, affordable housing advocates and religious affiliations. This legislation would provide the tools necessary to construct, rehabilitate and preserve at least 1.5 million affordable housing units over the next decade. Not only would it provide solutions to the affordable housing crisis it would also stimulate the economy by creating 1.8 million decent-paying new jobs and nearly $50 billion in wages. I would respectfully request Mr. Chairman, that this Subcommittee would hold a hearing on this bill as soon as possible. I thank the Chairman.

Written Testimony

Michael Liu, Assistant Secretary for Public and Indian Housing

Department of Housing and Urban Development

for a hearing regarding

H.R. 1841 - Housing Assistance for Needy Families Act

before the

Housing and Community Opportunity Subcommittee

House Financial Services Committee

May 22, 2003

Chairman Ney, Ranking Member Waters, and members of the Committee, thank you for this opportunity to testify before the Subcommittee on Housing and Community Opportunity to discuss H.R. 1841, which would reform and replace the current Housing Choice Voucher program with the Housing Assistance for Needy Families (HANF) block grant program.

The Housing Choice Voucher program is HUD's largest program both in terms of annual budget authority and units under contract, providing rental and homeownership assistance to more than 1.8 million families. The Voucher program provides tenant-based assistance allowing families to seek out the best available housing in the market.

The purpose of the HANF proposal is to improve the delivery of tenant-based assistance to very low-income families. It would accomplish this objective by retaining the core elements of the tenant-based assistance program while stripping away the unnecessary requirements and regulation that are not central to the program's fundamental mission.

The current program's basic concept is still sound. However, there are serious shortcomings with its design and effectiveness. This is evidenced by two troubling figures; 1) over a billion dollars of tenant-based assistance have been annually recaptured by Congress, and 2) HUD pays upwards of one billion dollars in over-subsidy errors resulting from complicated, restrictive program rules. On one hand the money goes unused and thousands of eligible low-income families do not receive subsidies, while on the other hand, the government is paying too much for what is used. Reforming and simplifying the program can eliminate both of these staggering problems and provide more, not less housing to those in need.

Presently, HUD must administer the Voucher program through rules and regulations that apply directly and uniformly to 2,600 entities throughout the nation, half of which administer 250 or fewer vouchers. The sheer number of local administrative entities has significantly diminished HUD's ability to provide quality assistance and to monitor and accurately measure performance.

Moreover, the development of regulatory and statutory measures intended to construct a one-size fits-all program for every market area has resulted in a program that is overly prescriptive and unnecessarily difficult to administer, with hundreds of pages of regulations and guidance. The complexity of the Voucher program, its inability to allow timely adjustments to changing local markets, the multiplicity of federal directives and requirements has all made the Voucher program less effective.

Under H.R. 1841, HUD would no longer contract directly with local public housing agencies to administer the tenant-based assistance program. Instead, HUD would make grants available to states to provide tenant-based rental and homeownership assistance, either directly or through local entities, to eligible families. We believe that states would be able to make more timely and informed policy and funding decisions based on local need and market conditions as compared to administrators in Washington, D.C. These decisions include moving unused funding to heavy demand areas of the state at any given time during the fiscal year, and tailoring the program to better address the practices of the local market and needs of the community.

Current program administration is balkanized by local PHA jurisdictional boundaries. For instance, the local PHA is only concerned with landlord recruitment and retention within its own jurisdiction, not in surrounding towns or counties. Families, however, are better served by considering housing opportunities throughout a metropolitan area. States could coordinate housing search efforts on a regional, as opposed to a local, level.

States would have the ability to contract with the most effective entities to manage the program in any given area of the state, fostering greater accountability and competition in the program. State administration would reduce the administrative burden associated with running the program by consolidating some of the administrative duties currently replicated by every PHA in the state, such as reporting and budgeting.

While families receiving subsidies may presently move anywhere in the country where there is a voucher program in operation, the process of transferring the administrative responsibility from one PHA to another is often cumbersome and time-consuming, ultimately discouraging such portability. HANF would retain and expand portability of tenant-based assistance to all areas of the country, including those few areas not currently covered by the Voucher program.

In addition, state administration would eliminate the administrative burden of portability moves within a state, which account for over three-fourths of all moves between PHA jurisdictions. Moves between states would also be easier to accomplish.

The number of vouchers available to the state at a given time through normal turnover would permit the state to absorb the family into its own program and eliminate the cumbersome billing process often employed between PHAs.

Tenant-based housing assistance is uniquely suited to support self-sufficiency efforts by families. The subsidy allows families to move in pursuit of employment and educational opportunities without jeopardizing their housing assistance. Economic self-sufficiency and homeownership efforts would receive greater support and achieve greater results through better coordination with other State administered assistance programs such as TANF and One-Stop Career Centers. If we are sincere in helping families move toward economic self-sufficiency, we must better coordinate our efforts with regard to welfare, housing, education, workforce training, transportation, and infrastructure. Given that the administrative responsibility for these services lies primarily with the states, we believe that the states are uniquely situated to effectively coordinate these services for families receiving housing subsidies.

Some concerns have been raised that the HANF grants may be more susceptible to budget cuts as a block grant, or that increases in rents would outpace inflation, leaving states no choice but to reduce the number of families served. We believe the opposite to be the case. Because the changes brought about by HANF would facilitate greater utilization, the funding levels should be more sustainable and justified compared to the current program, which Congress just this year adjusted funding levels for to account for under-utilization.

Some assert that block grants have been more vulnerable to cutting in the annual appropriations process than others, so that block granting vouchers means that funding is less likely to keep pace with inflation in the future. The funding history of HUD's HOME block grant for housing doesn't support this argument. If the President's FY 2004 budget request is funded, the appropriation for the HOME program in 2004, adjusted for inflation, will be 14 percent higher than in the program's first year. The program has received regular annual increases since 1993. In fact, support in the budget and appropriations process for programs depends in good part on their performance. By strengthening the performance of the housing voucher program, the Administration's proposal would increase the chances that future funding increases will be provided by Congress.

Under H.R. 1841, annual funding would be adjusted by a formula that would take into consideration data specifically tied to housing costs, not inflation in general, as well as the number of families assisted, extent of poverty, state performance, and funding utilization. If a state is unable to fully utilize HANF grant amounts, the renewal of the grant the following year would be reduced by the unspent amount, eliminating the need for recaptures. The amount by which the renewal would be reduced would be provided as additional funding to high performing states, so that the overall amount of funding for the HANF program would not be impacted.

Another misconception is that states would be able to divert HANF funds for other purposes. Eligible activities under the HANF program would be limited to tenant-based rental and homeownership assistance, and the costs of administering the grants. States would only use up to 10 percent of the total grant as reimbursement for program administration by the state and local administrators to be selected by the states. These safeguards ensure HANF funding would not be diverted to non-program purposes or to meet other pressing state budget needs.

Conversion to the HANF program would maximize the number of families receiving housing assistance without shifting assistance away from those families with the most need. The initial amount of the HANF grant would be equal to the sum of all Voucher funding currently provided to public housing agencies in the state. The states would be required to maintain assistance for at least as many families as are currently served, and families under the voucher program at the time of the conversion to HANF would continue to receive tenant-based rental assistance under the current regulations through fiscal year 2009. In addition, any family participating in the Homeownership Voucher program at the time of the transition to HANF would continue to receive homeownership assistance under the same terms and conditions as the current program. Lenders can continue to underwrite loans with the full assurance that the rules under which they based those loans would not be impacted by the conversion of voucher assistance to the HANF program.

HANF would retain the same income targeting requirements as under the current Voucher program. States would be able to submit waiver requests to HUD for additional flexibility as public housing agencies do now, but only to the extent that not less than 55 percent of new admissions are extremely low-income, ensuring that the program continues to serve those who need it most. Moreover, in the future, national performance standards would be used to encourage and reward states that do a better job of reaching households most likely to benefit from assistance, and placed on the path toward self-sufficiency.

A major goal of H.R. 1841 is to simplify and reduce administrative burden on the program providers. For instance, a significant problem plaguing the Voucher program is an unacceptable error rate of approximately one billion dollars in the calculation of adjusted incomes and rental subsidies. One of the root causes of the problem is the myriad of different rules covering what qualifies as annual and adjusted income, coupled with numerous temporary full and partial exclusions and income disregards. These policies, however well intended, have simply made income determinations a far too complicated process. Under HANF, all income determinations would be based on gross incomes. States would have the flexibility set the percentage of gross income that families would be required to contribute as their share of the rent, but that percentage could not exceed 30 percent. As under the current voucher program, families may choose to pay more for higher priced rental units if they wish. Income verification would continue to be required on an annual basis for families, but lengthening the verification period for the elderly to only once every three years would significantly reduce the administrative burden.

Another example of reduced administrative burden concerns housing quality standards and the inspection process. Housing quality remains a component of the HANF program to ensure taxpayer dollars are only used to subsidize properties that are decent, safe, and sanitary. However, the HANF program would make significant changes to streamline the administrative burden of this function. For instance, under HANF, states may adopt housing quality standards that reflect State and local code, rather than continue to apply the Federal, one-size-fits-all standard. All units would continue to have to be inspected for compliance before the unit is initially leased. However, subsequent inspections of currently assisted units would be reduced to a third of all units each year. The state would be required ensure that every assisted unit is inspected not less than once every three years. This flexibility would allow the state to concentrate its resources on those units that require the most attention.

In summary, H.R. 1841 offers us an opportunity to make significant improvements to a program that serves nearly two million low-income families. It moves administrative decision-making out of Washington and closer to the communities and families affected along with additional program flexibility to address local needs. The state would have the means to reallocate funds or take other actions that may be necessary so that program funds are expended promptly. Finally, the HANF program improves government support of self-sufficiency efforts for assisted families, efforts to reduce homelessness, and to help the disabled live independently. It does this by facilitating greater coordination with State-administered programs related to education, job training, child care and health care, inclusive of other state-administered federal programs like TANF (Temporary Assistance for Needy Families) and One-Stop Career Centers.

Thank you again for this opportunity to testify, and I look forward to answering any questions that you might have.

Congress of the United States
Washington, DC 20515

May 21, 2003

Hon. James T. Walsh
Chairman
Appropriations Subcommittee on
Veterans Affairs, Housing and Urban Development
H143 Capitol
Washington, DC 20515

Hon. Alan B. Mollohan
Ranking Member
Appropriations Subcommittee on
Veterans Affairs, Housing and Urban Development
2346 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Walsh and Ranking Member Mollohan:

We are writing to urge you to allocate funding for 79,000 incremental Section 8 vouchers in the FY 2004 Veterans Affairs, Housing and Urban Development appropriations bill -- and to express our strong opposition to the Housing Assistance for Needy Families (HANF) program proposed in President Bush's FY 2004 budget request.

Our nation's affordable housing crisis has been growing steadily over the last decade. Currently, 4.9 million families across the nation pay over 50 percent of their income on rent or live in severely substandard housing. Even when the economy was strong, rising housing prices kept safe, decent, affordable housing out of the reach of millions of American families. Today, the unusual combination of a weak economy and continually rising housing prices has created a situation that is even more bleak for low-income families struggling just to make ends meet.

Section 8 vouchers, the principal form of assistance for low-income families, the elderly and disabled people, are an effective tool in easing this crisis. This tenant-based assistance was created to ensure a continuous supply of affordable housing, and to give low-income families the opportunity to move into housing markets they could not otherwise afford. Only 15 percent of Section 8 voucher recipients live in high poverty neighborhoods, as compared to approximately 54 percent of public housing residents -- which clearly shows the success of Section 8 vouchers in effectively addressing one of the most serious shortcomings of traditional, project-based housing, the concentration of poverty.

Despite growing need, federal funding of vouchers has been in steep decline. In FY 2001, 79,000 vouchers were appropriated. For FY 2002, the number of allocated vouchers dropped to 18,000 – and mostly recently, no new vouchers were appropriated in the FY 2003 omnibus bill. As a result of this chronic underfunding, only one-fourth of low-income households that are eligible for vouchers receive any federal housing assistance.

With the ongoing uncertainty of our economy, a strong subsidized housing system is a critical safety net for low-income families. The Section 8 voucher program is not only highly effective in providing needed housing assistance, it also helps to reduce welfare dependency, improves employment rates, and increases educational opportunities.

We also oppose the authorization of the proposed Housing Assistance for Needy Families (HANF) program through the appropriations process. Serious concerns have been raised about the potential long-term impact of this proposal on housing assistance.

Despite long and growing waiting lists, HANF would provide no new funding for Section 8 vouchers. In addition, HANF threatens one of the most important aspects of the Section 8 voucher – its flexible value. Currently, housing authorities receive funding for vouchers based on the need of the recipient. Because the financial status of families may change, the voucher amount may be adjusted to provide additional assistance as needed. For example, if utilities or housing prices rise, the value of the voucher increases proportionally – or if a recipient is laid-off from their job, the voucher would increase to help compensate for their loss of income. The HANF proposal, however, would eliminate this flexibility and severely jeopardize the safety net for families whose financial situation deteriorates.

HANF fails to effectively address the needs of Section 8 voucher program, and would potentially exacerbate our nation's growing housing crisis. We believe that such a controversial proposal must be fully vetted in the authorizing committee before any further consideration in the House.

The Section 8 voucher program helps to ensure that hundreds of thousands of working families across the country have the opportunity to live in stable home and safe neighborhoods. We, therefore, strongly urge you to provide funding for 79,000 incremental vouchers in the Veterans Affairs, Housing and Urban Development Appropriations bill for FY 2004, and oppose the authorization of the HANF program.

Sincerely,

Nydia M. Velázquez
Member of Congress

Jerrold Nadler
Member of Congress

Barney Frank
Member of Congress

Maxine Waters
Member of Congress

Charles B. Rangel
Member of Congress

Mike Ross
Member of Congress

Melvin L. Watt
Member of Congress

Artur Davis
Member of Congress

Bernard Sanders
Member of Congress

Carolyn B. Maloney
Member of Congress

Gary L. Ackerman
Member of Congress

Darlene Hooley
Member of Congress

Rubén Hinojosa
Member of Congress

Luis V. Gutierrez
Member of Congress

Rosa L. DeLauro
Member of Congress

Bart Gordon
Member of Congress

Corrine Brown
Member of Congress

Lynn C. Woolsey
Member of Congress

Dale E. Kildee
Member of Congress

Major R. Owens
Member of Congress

Maurice D. Hinchey
Member of Congress

Donald M. Payne
Member of Congress

Henry A. Waxman
Member of Congress

Edolphus Towns
Member of Congress

Eliot L. Engel
Member of Congress

Gene Green
Member of Congress

Sherrod Brown
Member of Congress

Dennis Moore
Member of Congress

Harold E. Ford, Jr
Member of Congress

Wm. Lacy Clay
Member of Congress

Carolyn McCarthy
Member of Congress

David Scott
Member of Congress

Bob Filner
Member of Congress

Lane Evans
Member of Congress

Jerry F. Costello
Member of Congress

Charles A. Gonzalez
Member of Congress

Joseph Crowley
Member of Congress

Steve Israel
Member of Congress

Jim Matheson
Member of Congress

Jay Inslee
Member of Congress

Stephen F. Lynch
Member of Congress

Mark Udall
Member of Congress

Frank Pallone, Jr.
Member of Congress

James P. McGovern
Member of Congress

Janice D. Schakowsky
Member of Congress

Fortney Pete Stark
Member of Congress

Adam B. Schiff
Member of Congress

Robert Wexler
Member of Congress

Brad Sherman
Member of Congress

Barbara Lee
Member of Congress

Michael Capuano
Member of Congress

Ken Lucas
Member of Congress

Brad Miller
Member of Congress

Rahm Emanuel
Member of Congress

Julia Carson
Member of Congress

Diana DeGette
Member of Congress

Jim McDermott
Member of Congress

Dennis J. Kucinich
Member of Congress

Betty McCollum
Member of Congress

Anthony D. Weiner
Member of Congress

Rick Larsen
Member of Congress

Gregory W. Meeks
Member of Congress

Timothy H. Bishop
Member of Congress

Silvestre Reyes
Member of Congress

Karen McCarthey
Member of Congress

Lois Capps
Member of Congress

Raúl Grijalva
Member of Congress

A P P E N D I X

June 10, 2003

Opening Statement of the Honorable Bob Ney
Chairman
Subcommittee on Housing and Community Opportunity
Committee on Financial Services

"The Section 8 Housing Assistance Program: Promoting Decent Affordable Housing for Families and Individuals who Rent – Day 2"

Tuesday, June 10, 2003

Today, the Subcommittee holds its second in a series of hearings to examine the current operation and administration of the Section 8 Housing Choice Voucher program and review various proposals intended to make the program more efficient and cost effective.

The Housing Choice Voucher program is HUD's largest program both in terms of annual budget authority and units under contract, and it is currently administered by approximately 2,600 state and local agencies.

While the concept of the program remains sound, the program has often been criticized for its inefficiency. More than a billion dollars are recaptured from the program every year, despite long waiting lists for vouchers in many communities. The rising cost of the Section 8 program and some of the administrative concerns have caused many in Congress and the Administration to conclude that the program is in need of reform.

Last month, the Administration appeared before this Subcommittee to discuss its Housing Assistance for Needy Families, or HANF proposal, as outlined in its FY 2004 budget proposal.

On May 22, 2003, HUD Assistant Secretary Michael Liu testified that States would be able to make more timely and informed policy and funding decisions based on local need and market conditions as compared to administrators in Washington, D.C. These decisions include moving unused funding to heavy demand areas of the state at any given time during the fiscal year and tailoring the program to better address the practices of the local market and needs of the community.

Our two panels today consist of tenants, local public housing authorities, and industry groups directly affected by the Section 8 program. I look forward to hearing the different perspectives and would like to welcome all of our distinguished witnesses as we continue to discuss ways to improve America's communities and strengthen housing opportunities for all citizens.

I now recognize the Gentlewoman from California and the Subcommittee's Ranking Member, Ms. Waters.

Statement of the honorable wm. Lacy clay
Before the
Subcommittee on Housing and Community Development
"The Section Housing Assistance Program: Promoting Decent Affordable Housing for Families and Individuals Who Rent"

June 10, 2003

GOOD MORNING, MR. CHAIRMAN, RANKING MEMBER WATERS, MEMBERS OF THE COMMITTEE AND WITNESSES.

I ESPECIALLY WANT TO WELCOME MR. NEIL MOLLOY, EXECUTIVE DIRECTOR, ST. Louis COUNTY HOUSING AUTHORITY, ST. LOUIS, MISSOURI WHO IS APPEARING ON BEHALF OF THE PUBLIC HOUSING AUTHORITIES DIRECTORS ASSOCIATION (PHADA). THANK YOU FOR BEING HERE, MR. MOLLOY.

I WILL OPEN AS I CLOSED IN THE PREVIOUS HEARING. SECTION 8 VOUCHERS ARE IN SHORT SUPPLY AND ARE PROPOSED TO BE PLACED IN A VOUCHER GRANT PROGRAM FOR THE STATES IN 2005 AND I DO NOT BELIEVE THAT IT WILL WORK. WHEN WE CONSIDER THE DIRES FINANCIAL STAITS MOST STATES ARE IN AT THE PRESENT, WITH NO RELIEF IN SIGHT, IT WOULD BE A DISAASTER TO PLACE SECTION 8 VOUCHERS IN BLOCK GRANTS. STATES WOULD HAVE NO CHOICE THAN TO ATTEMPT TO MANIPULATE FUNDS FOR THE PURPOSE OF PAYING FOR SHORTFALLS IN OTHER AREAS.

THE HOUSING CHOICE VOUCHER PROGRAM IS A HIGHLY SUCESSFUL PROGRAM THAT IS COST EFFECTIVE. THIS PROGRAM IS ONE THAT WORKS. I HAVE MY SUSPICIONS ABOUT TINKERING WITH PROGRAMS THAT WORK WHILE LEAVING NEGLECTING AREAS OF GOVERNMENT THAT NEED ATTENTION. WHY THE CHANGE? HUD ALREADY HAS THE ABILITY WITHIN IT EXISTING AUTHORIZATION TO IMPLEMENT REGULATORY REFORMS TO IMPROVE THE PROGRAM WHERE DEEMED NECESSARY. THE LONG RANGE PLANS, I SUSPECT, ARE TO DISMANTLE THE SECTION 8 PROGRAM AND THAT IS A SHAME.

WE ARE TO GIVE THE PROGRAM TO THE STATES THAT ARE WOEFULLY UNDERTRAINED IN THE ADMINISTERING OF THE PROGRAM. HOW LONG WILL IT TAKE FOR THE STATES TO GET SUFFICIENT EXPERIENCE TO APPROACH THE FUNCTIONING LEVEL OF THE FEDERAL PROGRAM? WHAT IS THERE TO INDICATE THAT THE STATES ARE FULLY PREPARED TO ADMINISTER THIS PROGRAM?

WHEN I LAST LOOKED, THE SECTION 8 VOUCHER PROGRAM SERVED OVER 2 MILLION HOUSEHOLDS AS HUD'S LARGEST PROGRAM FOR ASSISTED HOUSING.

THERE ARE MANY QUESTIONS THAT HAVE TO BE ANSWERED ABOUT THIS NEEDLESS TRANSFER OF ADMINISTRATION OF THE SECTION 8 PROGRAM TO THE STATES. I DON'T THINK THAT THE ANSWERS WILL BE SUFFICIENT OR THAT THEY WILL MAKE A SENSIBLE CASE FOR CHANGING THE PROGRAM.

MR. CHAIRMAN, I ASK UNANIMOUS CONSENT TO SUBMIT MY STATEMENT TO THE RECORD.

Opening Statement of Congresswoman Maxine Waters
The Sub-Committee on Housing and Community Opportunity
Hearing: The Section 8 Housing assistance Program: Promoting Decent Affordable Housing for Families and Individuals Who Rent
June 10, 2003

The Housing Choice Voucher Program, commonly referred to as "Section 8" named after the section of the U.S. Housing Act that authorized it, is the largest federal low-income housing assistance program. The Section 8 voucher program currently serves about 2 million families, at an annual cost of over $12 billion. Some 2,600 housing agencies (mostly local) administer the program.

H.R. 1841 HANF (Housing Assistance to Needy Families) would convert the Section 8 voucher program to a block grant, transferring its administration to the 50 states and giving them discretion over allocation of funds.
Directly or indirectly, Section 8 supports over 4,000,000 apartments. Roughly one in seven renter's nationwide benefit from some form of Section 8 assistance. Of the 4,000,000 Section 8 households, about 35%, 1.4 million, have portable vouchers.

The HANF proposal would fundamentally change the federal funding system for tenant-based housing assistance, from one based on actual costs to a block grant that simply distributes federal appropriations among states.

With the recent passage of HUD's FY 03 budget, block granting the program to states for this reason is unnecessary, as the problem of underutilized vouchers has already been addressed.

If funding levels fall behind the program's needs, as likely will occur, states will either have to contribute their own funds to the program or reduce assistance to low-income families and elderly and disabled individuals.

A National Association of Redevelopment Officials report shows states would face a $1.1 billion to $1.8 billion in costs to close the funding gap created by the administration's block grant proposal.

California represents a large component of the Section 8 program, with 14% of the nation's vouchers and 16% of the nation's leased vouchers. I am concerned that assistance to families currently participating in California's Section 8 Programs would be jeopardized under the new proposal.

Under the current the Section 8 Housing Choice Voucher program in California, the average per family rental assistance cost per year under is approximately $ 8,364. The funding shortfall for California to cover 87,018 low-income families at $8,364 per family for, over a five-year period would equal $727,878,552!

My question to this administration is, what happens to working families who cannot afford decent apartments under this proposal if states implement a time limit?

Only 20% of Housing Choice Voucher holders receive welfare benefits. The other 80% rely on earned income, pensions or disability income. The need for housing assistance is driven by local housing market conditions and rental housing cost inflation, so using the TANF model is inappropriate.

The uncertainty of block grant funding could have an even greater impact on the use of vouchers to support homeownership. Vouchers can only be used to support home mortgages to the extent that mortgage lenders are confident that funding will continue to be available for the length of the mortgage.

Again, I do not believe that a block grant to the states is the best way to realize improvements in the Section 8 program. And we need to continue this dialogue to find solutions that work.

I yield back my time. Thank you Mr. Chairman.

Testimony of Terri Ceaser
Prince George County, Virginia

United States House of Representatives
Committee on Financial Services
Subcommittee on Housing and Community Opportunity

June 10, 2003
Washington, DC

Chairman Ney and Ranking Member Waters, other members of the subcommittee, I am Terri Ceaser and I live in Prince George County, VA. Thank you for the invitation to address you this morning. I am here today as a Section 8 tenant, not representing an organization or an agency.

I have had the good fortune to be the recipient of a Section 8 voucher, issued by the Prince George County Housing Authority, since 1994. I was first approved for a voucher and was placed on the waiting list for a voucher in 1990. I had separated from my husband and was employed as a secretary at the Prince George High School. I was not receiving any child support, and did not earn enough to be able to afford rents on decent housing. We lived in a house that was too small for our family and in poor condition, with exposed electrical wiring, dangling pipes, and an unsafe porch. When my name came to the top of the waiting list and I was issued a housing voucher, I was able to move my children to a decent and affordable home in a safe neighborhood. This is the home in which I have raised my children. My oldest graduated from college this May. My middle child has finished his second year in college. And my youngest is in high school now.

Not only are my children busy with their studies, but I am also hitting the books. I just completed a lifelong dream of obtaining a bachelor's degree and am enrolled full time in a master's program to prepare myself for a career in community counseling. I will complete graduate school in December 2004.

While still in undergraduate school, I took a course with a required project to analyze a social welfare program. I decided to study the Section 8 housing voucher program. Mrs. Hampton Wade, the Director of the Prince George Housing Authority, was very helpful in allowing me to interview her and in providing me with written materials. Sometime after I had completed my project, Mrs. Wade told me she had received a letter from Governor Mark Warner seeking nominations of Section 8 voucher tenants to serve on the Board of Directors of the Virginia Housing Development Authority. Based on my involvement in the community and on my academic work, Mrs. Wade thought I would make a good board member and asked if she could submit my nomination. I agreed.

Several months later I learned that Governor Warner had reviewed all the nominations and wanted to appoint me. I am deeply honored to be the first tenant representative to serve on the Board of Directors of the Virginia Housing Development Authority. I am doubly honored to be the first tenant appointed to any state housing finance agency board in the nation as an equal member of the board with the same rights and responsibilities as all other board members.

My family's story is an example of the success of the Section 8 voucher program. The voucher has assured my family of the stability needed for my children to succeed in school. Now, because we have stable, affordable housing, I am in a position, even as a low income single mother, to better myself through education. I can safely say that without the housing assistance we have received, my children and I would have had a much different, certainly less productive, and much more difficult time these last few years.

I do not want to give the impression that our life has been easy. Completing my education and making sure that my children do well in school requires choices and sacrifices. We must adhere to a very strict budget, with no cushion. But the sacrifice is worth what we will achieve.

Section 8 has afforded me the opportunity to provide my family with a stable and safe environment, so I consider this a hand up, not a hand out. I face each day with determination to succeed, to improve my life, and to continue to make a better life for my children. Section 8 continues to make this possible because decent affordable housing in a decent neighborhood is available. Knowing that I do not have to make a choice between feeding my family and paying rent is a tremendous weight that I bypass – all because of Section 8.

I am not an expert on federal housing policy, but I am an expert on my family and my community. As such, I have very deep concerns about HUD's proposal to take the federal Section 8 housing program that has a proven track record of success and turn it over to states that may not be able to do as well, much less even want to administer the program. It seems like such a drastic change, which could result in such upheaval in the lives of the nearly 2 million families who are Section 8 voucher tenants, that I do not understand HUD's stated reason for the change of improving the program.

Under the program's current structure, the Prince George Housing Authority administers 175 vouchers and has had a 100% utilization rate since 1989. The Prince George Housing Authority has never had to turn back any voucher funds. Further, there are 110 families on the waiting list in Prince George County. We do not need to dismantle our program and start over. What we need is more vouchers.

The Virginia Housing Development Authority administers 8,855 vouchers on behalf of 46 localities in Virginia and has a 96% utilization rate. At one point, VHDA was not spending all its allocated voucher funds and indeed funds had to be turned back to HUD. This incident resulted in significant reforms in how VHDA administers the Section 8 voucher program, which have led to VHDA's much improved rate of utilization today. I mention this only to illustrate that it is possible to make improvements to the operation of the Section 8 voucher program within the existing rules.

I have reviewed the proposed HANF program and discussed it with my PHA director and others. I want to call attention to three problems that I see. The first is the idea that the housing voucher program needs to be changed so it will be more like the welfare program, TANF. This seems to be based on the mistaken notion that most people who receive Section 8 vouchers are also on TANF. In fact, the income of most households that rely on vouchers to be able to afford their housing comes from either employment or pensions or disability income.

Another concern is one that will not affect me directly since my governor has already made a commitment to assuring tenant representation on our state board. But some governors may not be as interested in the perspective of tenants and the current requirement that all agencies that administer Section 8 vouchers have at least one tenant on their governing bodies could easily fall by the wayside.

But my single largest worry is that there are no assurances that the program will continue to be funded at a level that will keep up with rising housing costs. As you know, the cost of housing is rising faster than incomes, so people with modest incomes are having more and more difficulty paying for their housing. The point of the Section 8 housing voucher program is to make sure that low income families can afford to live in decent housing. If you approve this proposal, Section 8 voucher tenants could end up with their current homes becoming unaffordable and having to move to poorer quality housing in unsafe neighborhoods, causing disruptions in jobs and schooling.

I know that both of my Senators, Senator Warner and Senator Allen, have written a letter to Secretary Martinez expressing their concerns about this proposal. I am grateful that they have taken such an interest in this issue. I hope that each of you will take a careful look at what this proposal could do to your community. Once you do, I am sure you will agree that is a bad idea. Whatever problems you may hear about the Section 8 voucher program certainly do not call for such drastic changes and certainly can be fixed within the rules you have already approved.

Thank-you for the opportunity to share my thoughts with you.

Testimony of Telissa Dowling
Voucher Holder
Guttenberg, New Jersey

U.S. House of Representatives, Committee on Financial Services
Subcommittee on Housing and Community Opportunity
June 10, 2003

Chairman Ney, Ranking Member Waters, and Members of the Subcommittee, I am very honored to testify about the Section 8 voucher program. I am testifying today on my own behalf and I am not representing any organization or agency. As you will learn from my testimony, I know from personal experience how the voucher program can help low income people find stable housing and better their lives. I will not be telling you that the program is perfect, but it is a very good program and any changes that Congress makes to it should be considered very carefully.

The Section 8 voucher program has helped me pay my rent since 1996, when I first received a voucher from the New Jersey Department of Community Affairs (NJDCA), a state housing agency. My daughter, Jaleesa, was going to school in Jersey City, in an area where the schools were in such bad shape that they had to be allocated extra money as a result of a lawsuit. I wanted to move to a better neighborhood, so that Jaleesa, and I could have a better life. The last straw for me was when I bought breakfast for my daughter one morning and some other kids took it from her and threw it in the street – I did not want my daughter to have to go through those kinds of experiences.

I was able to secure a voucher from NJDCA, through its transitional housing program, and I moved to Guttenberg, New Jersey, a smaller community. In Guttenberg, both my daughter and I were able to improve our educational opportunities. My daughter is 14 years old now and she is already talking about going to college. Living in Guttenberg also gives me access to better transportation and other resources that have helped me improve my family's life. My voucher helps me live in a nice building with tenants from a mix of economic and ethnic backgrounds.

When I received my voucher in 1996, I was on public assistance, but within a year, I was able to leave the welfare program. I had been doing community service through the welfare program at my local public housing authority and I had also begun my studies for an associate's degree in public policy and urban studies. The help from Section 8 with my rent gave my life the stability I needed to be able to attend school, and my studies helped me turn my work at the public housing authority into a job, so I was able to leave welfare. I received my associate's degree from St. Peter's College in 2000. I recently became a program manager for a housing resource center. Without a voucher, I would not have been able to get my degree, I might not have a job, and my daughter and I might be homeless.

My studies also gave me the knowledge and confidence to participate as a tenant. When NJDCA announced the formation of a Resident Advisory Board (RAB), as required by the Quality Housing and Work Responsibility Act of 1998, I understood that this would be the chance for me to provide input and help influence the policies related to my voucher and my housing. I let other voucher tenants know about the importance of participating and making their voices heard. My public policy studies helped me break down some of the information that NJDCA was providing into layman's terms for other voucher tenants. After two years as a member of NJDCA's RAB, I was elected as president of the RAB in 2001, serving on behalf of 19,000 tenants who have vouchers administered by NJDCA. My work on the RAB has led to other opportunities to represent voucher tenants and low income people in a national capacity, and I now serve on the boards of the National Low Income Housing Coalition and ENPHRONT, a national public housing residents' organization.

The difference that having a voucher has made in my life and the lives of other voucher tenants I know make me sure that the proposal to change the voucher program into a block grant to the states is a bad idea. Even though I receive my voucher from a state agency and I know that NJDCA is able to reach tenants around the state and provide housing opportunities for them, I would not want NJDCA to receive a block grant for tenant-based rental assistance. There is a big difference between the system as it is now – with NJDCA and local housing agencies in the states receiving a certain number of vouchers that have certain funding levels and rules established by the federal government – and a block grant.

First, I do not want states to have the kind of flexibility that the block grant proposal in H.R. 1841 would allow. I know that one justification for turning the voucher program into a block grant to states is that it would simplify the program. I am sure that my fellow witnesses who know about property management will explain how having different rules in all of the states actually may make things more complicated. I think that it is important for there to be rules that the federal government has established when the federal government in providing funds, so that taxpayers can be sure they are getting their money's worth and so Congress will know that the money is being used well, to help those most in need. I testified before this Subcommittee last year about some ways to make the rules more flexible within the current framework so that the Section 8 program would work better, such as changes to the rules on the inspection of housing. But turning the program into the block grant would give states so much flexibility that it would be detrimental to the very people that federal housing assistance is supposed to help, voucher tenants and poor people who would like to become voucher tenants.

Another problem with the block grant is its effect on the opportunity for tenants to provide input and be involved in planning. As I understand it, under the block grant, states would not be required to have a Resident Advisory Board. There would be no requirement that states consider tenant input when they make policies. My state has obviously done the right thing already and I would hope NJDCA would not dismantle its RAB under a block grant system. But other states may not be as enlightened as mine and might not bother to establish a RAB or encourage tenant input by other means. Even though H.R. 1841 requires that the state's objectives for the block grant become part of a state's Consolidated Plan, the public participation requirements for the Consolidated Plan are much more general than the participation of tenants required under the current public housing agency planning process.

The block grant could also hurt tenants' efforts to improve their economic circumstances. I want to remind you that I was able to move from welfare to work under the current system. One of the purposes listed by H.R. 1841 is improving coordination with the welfare program, Temporary Assistance for Needy Families (TANF). I do not believe that having states administer both TANF and the block grant will not guarantee good coordination. I have heard that some local housing agencies coordinate well with

TANF and some state agencies do not. Simply having the voucher itself, under the current rules, helped me get off TANF. Plus, only about 13 percent of people receiving vouchers also are on welfare.

One program that helps voucher and public housing tenants improve their economic circumstances is the Family Self-Sufficiency (FSS) program. I have just begun to participate in this program. FSS provides subsidized savings and case management for public housing and voucher tenants seeking better employment opportunities. But states would not be required to continue this program under the block grant, even though it helps families save money for the downpayment on a house, for educational expenses, for buying a car to expand employment opportunities, or for the sorts of financial emergencies that could be devastating without savings to cushion the blow.

Another way that the current voucher program that provides new opportunities is through Section 8 homeownership. With my FSS savings to help me with the downpayment and Section 8 to help me pay my mortgage, I hope to one day become a homeowner. With my current income, it would be hard for me to become a homeowner without these programs and that is why Congress established them. But I am worried that a bank will not trust the money coming from a block grant, since Congress's track record of funding all vouchers would become meaningless under a block grant and banks need a reliable stream of funds to repay a loan.

My studies and experience have shown me how important it is for the voucher program to focus on serving the poorest people, since those people have the most trouble affording housing. But H.R. 1841 would allow states to reduce the percentage of extremely low income people admitted to the program from the current 75 percent to 55 percent. The Millennial Housing Commission found that there is a gap of nearly two million units of housing compared to the number of households at the lowest end of the income ladder. It is hard for me to imagine any state that could justify not continuing to use at least 75 percent of its funds to serve those poorest people. But there is a pretty low hurdle for a state to show it needs the waiver to serve fewer of the poorest families under the block grant legislation.

It is also very important to me and other voucher tenants that we do not have to pay too much of our income in rent. But the block grant would change the general standard that new tenants pay 30 percent of *adjusted* income for rent to 30 percent of *gross* income for rent, so certain expenses, such as medical and child care expenses, will no longer be considered. New tenants can choose to pay as much as they want, rather than the current cap of 40 percent of adjusted income. And after the initial lease term, states would have full discretion to set the rent levels, so tenants could be required to pay significantly more than 30 percent of their income for rent.

Another problem is whether tenant-based rental assistance under the block grant would be able to help people live in neighborhoods with less poverty. My voucher allowed me to move to a neighborhood with less poverty than where I had been living before. But the block grant legislation does not provide much guidance to states about the subsidy they should pay toward rents and just requires that the maximum subsidy paid toward rent by the state must be "reasonable and appropriate for the market area" (§8(d)). Rents would no longer be connected, as they are under the current system, to the Fair Market Rents established by HUD for every jurisdiction. The subsidy the states pay might not be enough to let tenants find housing in neighborhoods that may be more expensive, but have better housing, schools, and job opportunities.

States might have the best intentions to continue tenant participation and the Family Self-Sufficiency program; to serve more rather than fewer people in need; to maintain deep targeting; and to pay rents high enough for tenants receiving assistance to live in neighborhoods like mine, with access to decent housing, jobs, and good schools. But my biggest worry is that the funding of the block grant will not keep up with need over time. And that could cause states with even good intentions to have to make the types of changes I have described in this testimony – changes that will hurt tenants and hurt the program. H.R. 1841 even imagines that funding could *decrease* under the block grant and explains how HUD should pro rate the distribution of funds to each state if Congress appropriates less funding in one year than in the prior year.

The current system makes a strong connection between each voucher in each community and the overall funding Congress provides. But a block grant would divorce Congress from direct responsibility for individual vouchers, making it easier for Congress to provide less rather than more – or, even if an increase, not enough of an increase to keep up with real increases in housing costs. States would then need to make tough decisions and would be free to implement the sorts of changes I have described.

And while current tenants are "grandfathered" in for a few years under the current rules of the Section 8 program, after that, my voucher might not be safe. Even in the interim, under H.R. 1841, if Congress does not provide enough money to fund the vouchers of all of the families currently assisted, states should do their best to serve the same number of families – but that could mean that I would have to pay a lot more of my income in rent, for instance, if New Jersey did not get enough money from Congress.

For all of these reasons, I respectfully and strongly recommend that Congress continue the current system of allocating specific numbers of vouchers to local and state housing agencies under the general framework that exists today. There are ways to improve the voucher program without turning it into a block grant and I testified about some of those improvements last year. I hope that you will consider improvements to the program that are not as radical and risky as a block grant.

THE TOPEKA HOUSING AUTHORITY

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TESTIMONY
of
ROBERT E. DUNCAN, II.
CHAIRMAN
BOARD OF COMMISSIONERS
TOPEKA HOUSING AUTHORITY
TOPEKA, KANSAS

ON
THE SECTION 8 HOUSING ASSISTANCE PROGRAM:
PROMOTING DECENT AFFORDABLE HOUSING
FOR FAMILIES AND INDIVIDUALS.

BEFORE THE
HOUSING AND COMMUNITY OPPORTUNITY SUBCOMMITTEE
HOUSE FINANCIAL SERVICES COMMITTEE
JUNE 10, 2003

Chairman Ney, Ranking Member Waters, and members of the Committee, thank you for this opportunity to testify before the Subcommittee on Housing and Community Opportunity to participate in discussions regarding the Section 8 Housing Assistance Program: Promoting Decent Affordable Housing for Families and Individuals.

I would like to begin with a brief recent history of the Topeka Housing Authority, or THA, as this history bears on comments that will follow.

In February of 1999 THA was a financial and programmatic mess. The vacancy rate for THA's 636 Public Housing units was over 20%, and many units were unrentable. THA was using less than 60% of the 944 Housing Choice vouchers available. THA wide, expenditures exceeded revenues, and our reserves represented only six weeks of operating capital. Appropriately, HUD declared THA a Troubled Agency. At that time I had just joined the Authority's Advisory Board. The Cleveland TARC Office was assigned the task of helping our Board of Commissioners improve our capacity.

Over time, with the help of a number of capable, dedicated THA staff and equally capable and dedicated people in the TARC and in HUD's Kansas City Field Office, our Board was able to make dramatic improvements in the way THA operates. Effective January 1, 2001 we became an independent unit of government under Kansas' Municipal Housing Authority law, and I have served as Chairman of the Board of Commissioner since that time. Today, our core administrative costs are 40% lower than they were in 1999, and we are providing quality, affordable housing to 60% more Topeka families.

Our vacancy rate in 2002 was below 3%, and we are using 100% of the Housing Choice 8 vouchers available to us. We have streamlined our staff, we have improved our technological resources, we have privatized certain functions where appropriate, and our scores from HUD have reflected this progress.

Thus, while I cannot answer all the questions presented with your kind invitation letter, nor do I even want to suggest that I am an authority on the operations the Department of Housing and Urban Development (HUD), for I am not; I can address many of them from the perspective of one of those many community volunteers charged with setting policies for implementing this essential program..

On May 22, 2003 I was here in Washington D.C. on other business and I was present for this committee's proceedings when Michael Liu, Assistant Secretary for Public and Indian Housing, testified before this Committee regarding H.R. 1841. I found it enlightening.

Judging from his testimony, Secretary Liu and I share a number of perspectives and differ on others. Most significantly, we both want low-income American families to live in quality, affordable, accessible housing. What we do not agree on is how best to achieve this goal. Perhaps the reason for this is that our respective experiences with promoting decent, affordable housing for families and individuals and with Public Housing Authorities are different.

As one of those on the front line in the effort to meet these needs my perspective takes on a human face. In my position as Chairman of the THA Board of Commissioners I have met regularly over the past five years with public housing residents and Housing Choice Voucher Program participants. I readily admit that I do not know nearly as much about what goes on inside the beltway here as I do about what goes on in the affordable housing world in Topeka, Kansas, a city in the heart of the Midwest. Still, I think mine is a uniquely useful vantage point from which to offer comments regarding the promotion of decent affordable housing, and the proposed HANF legislation.

Taking the broadest issues first, I view affordable housing as a national problem that requires national solutions. I don't see it as a state problem. Coming from a state where populism has its roots such a view is probably contrary to what many might think those of us in the Midwest believe. I don't see how 50 different approaches for solving this problem and 50 different, slowly dwindling, patched together Housing Choice Voucher funding stream combinations are going to be an improvement.

To work successfully in a Section 8 Program under today's laws, rules and regulations one must know a great deal about how to determine eligibility, how to calculate income and how to project income over the course of a year, how to verify income, how to reexamine and recertify a participant, how to handle debt collection, causes and reasons for denial, the "one strike" initiative, due process and hearing procedures, the local availability of rental units, inspections, program rents and fair market rents, leases, and contract enforcement. This is a lot to ask of front line staff!

This doesn't even begin to cover the understanding that is expected of our staff in other areas of the law including, but not limited to, Title VI of the Civil Rights Act of 1964, Title VII of the Civil Rights Act of 1968, as amended by the 1974 Housing and Community Development Act, Section 504 of the Rehabilitation Act of 1975, the Americans with Disabilities Act, and a range of applicable state laws and local ordinances protecting the rights of participants.

Adding an additional layer of administration and possibly conflicting state rules will only impede the abilities of those of us on the front line to meet the desperate housing needs we find in our community for persons of limited economic means.

The goals of the Section 8 Program are to provide quality, accessible, affordable housing in mixed-income settings for low-income individuals and families, to strengthen participating families, promote self-sufficiency, and support neighborhood development. To make these goals realistic, we need to be talking about removing barriers to effective program implementation, not adding them.

I find it interesting that I have a greater belief in the ability of the Congress and federal agencies to address nationwide problems---including affordable housing--- then the proponents of HANF appear to have. My belief is perhaps the result of our Board of Commissioners' participation as a full partner in a joint Federal/local effort to successfully rebuild and redirect an underperforming Housing Authority. We could not have done what we did without the capable assistance of appointed and career federal employees. THA's Board, staff, and the people we serve can all attest that Federal/local partnerships can and do work effectively. It may be that state employees could have done as much for us, but frankly I doubt it. We are a mobile society, employment opportunities are not confined to the locality in which we live, we treasure our privilege to travel across state lines and housing is an interstate activity not solely an intrastate activity. In certain areas of my state people live on one side of the state line and work on the other. A goal of the Section 8 program is to promote mobility and thus portability of vouchers under a single set of rules across the nation should be paramount.

In his May 22, 2003 testimony Assistant Secretary Liu identified three Housing Choice Voucher Program shortcomings:

1) Underutilization of available funds;
2) Administrative inefficiencies; and,
3) Regulatory complexity.

As I understand it, HUD officials are actively and successfully engaged in making improvements in all of these areas. And, if legislation is necessary, I have no doubt that if a cogent case is made, Congress will remove legislative impediments to these efforts given the laudable objectives involved.

In its own study *Section 8 Tenant Based Housing Assistance: A Look Back After 30 Years,* March 2000, HUD reported that:

"HUD has implemented *stronger program monitoring and enforcement* of all its programs, including Section 8. The Section 8 Management Assessment Program will permit the Department to identify and work with PHAs with serious Section 8 program problems and will also allow us to identify weaknesses that could turn into problems without attention. HUD understands the need for *technical assistance* to PHAs to help them improve their local programs, including meeting the goals of mobility and deconcentration. A series of Section 8 technical assistance efforts has begun, and HUD has plans for more. HUD also believes that it has a responsibility to continue its *policy analysis, research, and dissemination* efforts. Thus, the Department has a large number of research projects underway that will contribute to the continued improvement of the program."

It seems to me that there is already an awareness both nationally and at the front line that we must improve our performance. We must improve performance if for no other reason that the participants of this program deserve our best efforts.

I will address more than the impacts of H.R. 1841, but I do want to observe that HANF is a misleading acronym. HANF implies a natural link with TANF---or welfare. It may interest you to know that welfare is the primary source of income for only 14% of THA Housing Choice Voucher Program participants. Three target populations are more broadly represented: SSI recipients at 18%, Social Security recipients at 21%, and wage earners at 34%. The Voucher program, then, is not primarily a welfare program. It is a more accurate to think of it as a Program that serves the working poor, the elderly, and persons with disabilities. More than 85% of these households are headed by women.

Let me address some of Assistant Secretary Liu's comments and speak to some of the questions that you have posed.

With respect to the underutilization of available funds it is my understanding that Congress has taken steps to recapture funds not being spent for the purpose for which they were appropriated. I would suggest that Congress closely monitor the utilization reforms mandated and put in place this Spring. After at least one fiscal year Congress will be in a better position to then judge their effectiveness.

With respect to administrative inefficiencies, the old maxim "the shortest distance between two points is a straight line" is applicable. At THA we attempt to empower as much as possible those members of our staff that have direct contact with our constituencies so they can address concerns without the proverbial "bureaucratic red tape." If you have ever read any management treatises you know that the best run organizations, as Peters and Watterman stated in their work *In Search of Excellence*, have a bias for action -- they do it, fix it, and try it. They don't stand still.

In Section 8, like in any well run company, we must be close to the customer, and encourage productivity through our staff. Thus while I would oppose interposing the States between HUD and the customer – in this case the public housing agencies administering the program.

In HUD's 2004 budget message is was stated:

- ***Housing Assistance for Needy Families (HANF).*** By overhauling the voucher program to allocate vouchers to the states rather than PHAs, HUD will provide a unique opportunity to improve the coordination of self-sufficiency efforts between the voucher program, the Temporary Assistance for Needy Families program and other state-run self-sufficiency initiatives. State control of both the housing and welfare programs, along with additional flexibility in the housing program to allow local needs to be addressed, should result in more effective self-sufficiency efforts and better support of the families involved.

Can we not have additional flexibility to allow for local needs to be addressed without state control?

On February 3, 2003, in the HUD press release describing HANF the department stated that: "The FY 2004 budget proposes a new initiative under which rental assistance vouchers previously allocated to thousands of public housing authorities would be allocated to states. States, in turn, would contract with local housing agencies to administer the program. Allocation of rental assistance vouchers to states would allow more flexibility and reduce or eliminate problems associated with the underutilization, and ultimately the recapture, of billions of dollars in rental assistance to local housing agencies. Moreover, the HANF Program should run more effectively with HUD managing fewer than 60 grantees compared to approximately 2,600 today."

If ultimately the states are going to contract with local housing agencies to administer the program, can we not find a better solution that effectively creating 60 mini-HUD's between Washington and Topeka? I think we can.

I do understand the need to streamline the number of points of contact between HUD and Section 8 administrative units. There is no reason to maintain 2,600 Housing Choice Voucher Program operators, half of which have fewer than 250 vouchers. To this end I suggest that there be consolidation over a reasonable period of time. It may not be necessary for Congress to mandate the form this consolidation takes. You may merely want to set a minimum in terms of the number of vouchers that will be provided to any program operator at some date in the future.

Smaller local housing authorities today have to be as knowledgeable about those matters I previously listed as larger authorities. That may be an unreasonable expectation. We recently had a household transfer to our Section 8 from a much smaller housing agency and community. Some of the materials we received had not been in use for years. These smaller communities could either work with another, larger authority nearby or they could form cooperatives to administer this Program.

HUD needs to more aggressively market programs and program components that are obviously successful. That is, HUD staff should "bottle" and distribute what works to other programs. THA is only one of a number of Housing Authorities across the country that has made a remarkable turnaround.

One such study entitled *Learning from Each Other New Ideas for Managing the Section 8 Certificate and Voucher Programs* was prepared for the U.S. Department of Housing and Urban Development Office of Policy Development and Research Office of Public and Indian Housing, by Abt Associates under Contract HC-18374, in September 1996. That study concluded that:

"Improving the administration of the Section 8 certificate and voucher programs depends much more on local initiative than on programmatic and policy changes at the national level. For some time, local program administrators have been responding to challenges and reengineering program operations. Sometimes this means taking advantage of new technologies. For example, some program administrators have created voice mail systems that enable potential certificate and voucher-holders to verify on their own the status of their position on the housing authority waiting list. Other housing authorities use hand-held computers to schedule and conduct inspections and to inform landlords of defects that must be repaired for the unit to meet housing quality standards. Quick and efficient inspection can prevent a family from losing access to a good rental unit because the owner rents to an unsubsidized tenant rather than waiting for a lengthy bureaucratic process. In other cases, innovations take the form of new relationships with other institutions: police departments for anti-crime initiatives; service providers for combining housing assistance with other supports needed by families or individuals; other governmental institutions for more efficient access to records of household income."

In this internet age there is a great wealth of information available to make us all more efficient. Again, those we serve deserve our best efforts to provide unparalleled quality, service and reliability.

With respect to regulatory complexity, in successful enterprises, the maxim "simple form, lean staffs" applies. One company I have represented over the years produced a sticker that had the words "we have always done it that way" printed beneath a red circle with a slash through it. It appears from the local level that much of what we do today to meet bureaucratic requirements is merely because that's the way it's always been done. Instead, we should simplify and build comparative elements into the existing HUD scorekeeping systems and make the system real time.

HUD has a Section Eight Management Assessment Program (SEMAP) which measures the performance of public housing agencies that administer the housing choice voucher program. Theoretically SEMAP helps HUD target monitoring and assistance to programs that need the most improvement. The 14 indicators of performance show whether we help eligible families to afford decent rental units at a reasonable subsidy cost as intended by Federal housing legislation. Indicators of performance include: proper selection of applicants from the housing choice voucher waiting list, proper determination of reasonable rent for each unit leased, establishment of payment standards within the required range of the HUD fair market rent, accurate verification of family income, timely annual reexaminations of family income, correct calculation of the tenant share of the rent and the housing assistance payment, maintenance of a current schedule of allowances for tenant utility costs, ensuring that units comply with the housing quality standards, timely annual housing quality inspections, performing of quality control inspections, ensuring that landlords and tenants promptly correct housing quality deficiencies, ensuring that all available housing choice vouchers are used, expanding housing choice outside areas of poverty or minority concentration, and enrolling families in the family self-sufficiency (FSS) program as required and help FSS families achieve increases in employment income. There are monthly reports that basically summarize for the housing authority the data we submit.

And while the new Public Housing and Section 8 scorekeeping systems are a step in the right direction. They are complicated and have too long a time lag before results are available. We submitted our annual Section 8 Management Assessment Program certification for 2002 on February 19, 2003, within 60 days as required by law. HUD has 120 days to grade us, and if past experience is a guide, we may not receive a response from HUD until after that 120 day period. That's too late for this to be a useful monitoring tool for us or for HUD. If we have already identified the problem we most likely have fixed it. If we haven't identified the problem, then by the time it is identified we've compounded it effect.

At THA we have a comprehensive, 70 element internal scorekeeping system that fits on two pages. It details both what we do and what difference we make for all of our customers. It is compact enough to include in our monthly newsletter. THA's Board, staff, local elected officials, program participants, and other interested persons know at all times what we have accomplished and how this compares with our goals.

Having reviewed HUD's FY 2004, Annual Performance Plan, dated April 2003 I am aware that HUD has as the agency's goal to "act to...expand the customer service impacts of HUD 2020 by ... sharing best practices for housing and community development across the country, ...Empower[ing] HUD employees and increase their ratings of personal and organizational effectiveness; and ... Increase[ing] the capability of HUD partners." Perhaps before Congress creates the "mini-HUD's" it should provide The HUD the resources it needs to accomplish its Plan. If the Plan is truly implements, then we won't need to interject state governments into the middle of the administration of Section 8.

The Committee's questions address a combination of administrative and regulatory concerns. I have already suggested some changes that might be made. Let me also offer these recommendations. My staff tells me that one thing that needs to be done is to simplify the work required to determine income eligibility. An equal priority is to provide real-time mechanisms to track and verify results.

HUD currently uses only one approach to determining income. That is, $500 in earned income is treated the same as a $500 SSI payment, for example. We suggest that HUD consider using a two category approach to income determination; one for incomes for the working poor, and a second for persons on fixed incomes (generally some form of government assistance). You cannot equate the two. Wage earners have deductions coming from their checks. Payment recipients do not. HUD does not need to reinvent the wheel to make this change. There are already many programs around the country that use this dual approach to calculate income for child support purposes.

We also need immediate access to available income verification sources and the ability to request tax returns. Congress needs to insure that Section 8 providers have ready access to a variety of income data bases. At a minimum, this should include access to unemployment reports filed by employers with the states which documents gross income paid and to current social security recipient information.

With respect to the questions raised regarding fees paid to public housing agencies and reserves retained I would make these observations.

In June 1994, the Assistant Secretary for Policy Development and Research for HUD submitted SECTION 8 ADMINISTRATIVE FEES: A REPORT TO CONGRESS, pursuant to the HUD Demonstration Act of 1993. It stated, in part that "Data collected by HUD and others over the past decade show distinct differences among various types of PHAs in their ability to cover administrative costs." I am sure more efficient agencies can do more for less. What many don't realize however, is that we get only get paid our administrative fee when a participant is housed. At THA we spend many hours assisting prospective participants who, for a variety of reasons are not housed. That 1994 report also concluded that "The dramatic decline in surpluses for all PHAs over the past decade suggests that these reimbursements have not kept pace with the costs of administering Section 8 rental assistance." In a time of economic uncertainty and tighter markets where landlords may find it economically more advantageous not to participate in Section 8, we are providing prospects for housing services for which we are not specifically compensated. By capping reserves, local housing agencies will have an incentive to spend rather than save. We will have less incentive to be efficient if we cannot accumulate the savings we make. Caps on reserves are counterproductive to encouraging entrepreneurship. Need I say more? No.

It has been truly an honor to return to this magnificent city of my birth and provide you with these thoughts. Let me close by saying, let us not lose sight of the purpose of our enterprise, let us remove the barriers that impede our ability to provide quality, accessible, affordable housing in mixed-income settings for low-income individuals and families, to strengthen participating families, promote self-sufficiency, and support neighborhood development.

R.E. "Tuck" Duncan
Attorney at Law, Topeka, Kansas.
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Robert E. Duncan, II. ("Tuck") was born October 4, 1951, Washington, D.C. Mr. Duncan attended the University of Kansas, B.S., Journalism '73; and Washburn University J.D. '76. He was Secretary and Chief Counsel, Kansas Board of Tax Appeals '76-'78; Assistant Attorney General, State of Kansas '79-'81; Assistant City Attorney, City of Topeka, KS, '81-'83 and is in the private practice of law since 1983 to present. Mr. Duncan is admitted to practice in Kansas, the Federal District Court, the 10th Circuit Court of Appeals, and the United States Supreme Court. Mr. Duncan is Chairman of the Topeka Housing Authority Board of Commissioners, and has served as Chairman since 2001. Mr. Duncan currently sits as a Judge *Pro Tem*, Shawnee County District Court for Domestic Violence matters. Mr. Duncan is actively engaged in the general practice of law handling a variety of matters involving administrative law, domestic law, probate, criminal defense and civil litigation. Mr. Duncan also represents the Kansas Wine and Spirits Wholesalers Association, the Kansas Occupational Therapy Association and American Medical Response before the Kansas Legislature. Previous activities include: Chairman, Kansas State Municipal Accounting Board; President Topeka Friends of the Zoo, Member and Vice-Chairman Topeka Public Schools Board of Education; Chairman Kansas Expocentre Operating Board; President Voluntary Action Center (a United Way agency); Movie Reviewer WIBW-TV (CBS) 1996-97 and KMAJ (radio) at Sunrise, 1997; He is a member of the Topeka and Kansas Bar Associations; Life Member Washburn Law School Association; Life Member, University of Kansas Alumni Association; Life Member Topeka/Shawnee County Friends of the Library. Mr. Duncan is currently Senior Warden and a member of the Vestry, St. David's Episcopal Church, Topeka, KS; President-Elect and Board Member, Shawnee County Historical Society; and the 2002-2003 Chairman, Topeka Postal Service Customer Advisory Council. Mr. Duncan has been married 29 years to Kathleen Allen Duncan, is the father of two adult sons and the proud grandfather of granddaughter Tessa, age 4.

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serving America's rental housing needs
NLHA

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Testimony of Craig Garrelts

Executive Director

Hocking Metropolitan Housing Authority

On behalf of the

NATIONAL LEASED HOUSING ASSOCIATION

Before the

House Committee on Financial Services

Subcommittee on Housing and Community Opportunity

June 10, 2003

National Leased Housing Association
serving America's rental housing needs
NLHA

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Mr. Chairman and Members of the Subcommittee, my name is Craig A. Garrelts and I am executive director of the Hocking Metropolitan Housing Authority, located in Logan, Ohio. I am representing the National Leased Housing Association, whose members include both owners and managers of Section 8 housing as well as public housing agencies that administer the Section 8 voucher program. We appreciate the opportunity to testify on H.R. 1841, the Administration's block grant or HANF program, which is proposed as a replacement for the Section 8 voucher program. We urge the Subcommittee to reject this proposal. It is a rash proposal, advanced under the guise of reform, that can damage a form of housing assistance that has had decades of bipartisan support.

The Section 8 subsidy has been a powerful and versatile tool for almost 30 years. It can serve the very poorest who need substantial help to those who only need shallow assistance to live in decent and affordable housing. Among its specialized functions, Section 8 has been used to replace older forms of subsidy that are less flexible and in the process preserved older projects and improved affordability for tenants. In addition, over 100,000 tenants, many of them elderly or disabled, have been able to remain in their units after project-based assistance was terminated, through the use of enhanced vouchers. All told, over 1.9 million families receive rental assistance from Section 8 certificates and vouchers. Section 8 has been the most successful housing assistance program of any housing program at any time. The major problem with it is that there isn't enough of it.

Recently, it has become common to complain that all the funds appropriated each year for Section 8 vouchers have not been used. Until this year, appropriations were sized based on an assumption that every authorized voucher and certificate would be under lease and for a full 12 months. No one expected this to occur and funds were routinely recaptured and rescinded. The rescissions reduced the costs of each year's appropriations to the amount actually used in the program, so there was no ongoing adverse fiscal impact from this method of calculating appropriations. When a problem did arise, it was a result of disagreements within the Appropriations Committees and the taking of the rescissions to offset non-housing appropriations. For fiscal year 2003, and presumably beyond, the appropriators have taken actions to minimize recaptures and therefore the potential loss to housing programs of Section 8 rescissions being allocated for other uses.

The important issue is not recaptures and rescissions, but getting the most families assisted as possible within the authorized level of vouchers assigned to each community. Here, action by the voucher administrators and by HUD have steadily improved utilization rates. Industry groups and HUD have encouraged administrators, primarily local public housing agencies, to take aggressive steps to increase leasing rates, including distributing more vouchers than they have to prospective tenants in the expectation that enough families will find units to lease to use all the authorized vouchers. Some administrators are even more aggressive and intentionally overlease, on a temporary basis until turnovers can lower utilization, as the best way to achieve high annual utilization rates. National utilization rates have risen from around 91 percent two years ago to 95.3 percent as of January 2003. We look forward to further improvement, but there is by no means a program failure here.

Rather, we believe the HANF proposal, if enacted, would be a true failure. HUD says that Section 8 has grown too complex and that a block grant to the States would be simpler. On the contrary, if this proposal is enacted the current program would remain the major program for several years, with all its so-called complexity, and one or two additional programs with different rules would co-exist with it. How is it that less complex?

To illustrate, all tenant-based voucher holders would be grandfathered for 5 years under all the terms and conditions of Section 8, and holders of project-based vouchers and those receiving homeownership assistance would be grandfathered for 10 or more years under the old rules. Assuming 1.9 million families are grandfathered and the annual turnover of grandfathered tenants is 10 percent, at the end of the first year 1.71 million voucher holders would be covered under the current system, while 190,000 turnover vouchers would be available for the States to fill should there be sufficient appropriations. By the end of year 5, about 1.1 million vouchers would still be covered under the current system. At the end of the five-year period, about 800,000 turnover vouchers would be available under the block grant program, to be utilized if sufficient appropriations are available.

In addition to these two differing coexisting programs, HUD would assume responsibility for the State program wherever a State declined to participate, an election that should be widespread. For the existing program, HUD would have to continue to calculate fair market rents for each local area to establish parameters for maximum subsidy amounts. Presumably it would use the same calculation for the States where it assumed responsibility for the block grant, although it would not be required to do so. What method the States use to calculate maximum subsidies is left to each State's discretion by the legislation. HUD's calculation of fair market rents also is used as a benchmark for rents in other programs, such as the HOME program.

HUD complains that Section 8 requires it to deal with a large number of local public housing agencies. These are the local hands-on administrators who among their many duties screen and select tenants, check their incomes, find and deal with landlords who agree to participate in the program, inspect units for housing quality standards and to meet lead-based paint requirements, determine maximum subsidies within HUD established parameters, and select and negotiate with owners who wish to use project-based vouchers. Section 8 requires that these agencies be the administrators of the voucher program unless none exists in an area or they decline or are unable to perform the requisite functions. The language of H.R. 1841 would result in the continuation of this administrative structure for the grandfathered voucher holders, with the exception that an additional layer, with associated costs, would be added in the movement of funds from HUD to landlords, and that, of course, would be the State (except where the State declines to participate at all).

Even if the use of public housing agencies were not required for the administration of the grandfathered vouchers, it would be expected that most of the existing infrastructure for the program would be retained, since any significant replacement would be costly, time consuming, complex and disruptive.

After the 5-year grandfathering period ends, over a million families could face chilling prospects. The bill authorizes States to establish time limits on the continuation of assistance. That could happen immediately or after a set period of time subsequent to the end of the grandfathering period. Even if assistance is continued, these families would face an immediate and substantial rent increase. First, the minimum tenant rent contribution would be changed from 30 percent of adjusted income to 30 percent of gross income, as defined by each State. At the low income levels that prevail among the voucher population the change to a gross income standard could have a substantial impact. For example, a single parent with four children with a gross income of $12,000, could have after deducting the current allowance of $480 per child and $500 in minor child earnings an adjusted income of $9,580. A rent contribution based on a gross rent of $12,000 instead of adjusted income of $9,580 would result in a 25 percent rent hike for the family.

Secondly, there is no assurance that the payment standard established by each State would be as high as the payment standard previously applied under Section 8. If the maximum subsidy is less under the State program, the tenant might have to cover the difference out of its pocket of find another place to live with a lower rent, if that were possible. H.R. 1841 states that no tenant would be required to pay more than 30 percent of its gross income for rent, unless it desires to secure better quality housing. This is a meaningless statement because it is made in a vacuum, without knowledge of the standard a State will use to determine maximum subsidy. Each State is free under the bill to establish its own standard, without statutory or regulatory guidance or parameters.

One of the functions of Section 8 vouchers I previously mentioned is for tenant protection where project-based assistance is terminated. Each year funds are appropriated for HUD to renew previously issued tenant-protection (or enhanced) vouchers and to fund new vouchers issued during the course of the upcoming fiscal year as project-based subsidies end. H.R. 1841 would have the effect of terminating existing requirements in Section 8 for providing enhanced vouchers after FY 2004. Additional appropriations are authorized to maintain or grandfather tenants "previously receiving such assistance in that State", but States would not be required to issue new enhanced vouchers. States would have the flexibility to continue the enhanced voucher protection but there is no assurance that any particular State would do so. A State, for example, might provide its regular assistance to tenants losing the benefit of project-based subsidies but not the enhanced form available under Section 8 under which subsidy levels can be as high as market rent, thus enabling a tenant to remain in the building rather than being dispossessed and having to find another place to live.

While tenants may get the short end of the stick under H.R. 1841, what about landlords? We need as many landlords as possible to participate, in all market areas, if the program is to be successful. Unfortunately, under the bill landlords will face multiple subsidy structures, even in the same building, as they serve both grandfathered and new voucher holders. Landlords not currently in the program may be dissuaded from participating if they are faced with two different payment standards, two different definitions of income, two different income recertification procedures, and perhaps two separate program administrators. Landlords with properties in several or numerous States would face the added burden of dealing with variations from State to State. Further, to the extent a State's payment standard is low or if the State sets a time limit to assistance, landlords would encounter additional tenant payment problems, lost rental income, additional turnover expenses, and more eviction proceedings, altogether a disincentive to participate in the program.

Finally, I would like to say a few words about the project-based voucher program. Final regulations for a newer version of this program are about to be issued by HUD and the program shows promise of expanding into a significant contributor to much needed site-based subsidized housing. H.R. 1841 treats new project-based assistance under the State program obliquely, if at all. If project basing is made eligible under HANF the terms could be entirely different than the program just being put into full operation by HUD. Lenders, tax credit syndicators, developers and owners would be faced with potentially up to 50 different project-based programs just after they have become comfortable with the uniform, national program implemented by HUD, thus dampening their willingness to participate. For projects already in existence, owners would be burdened by having grandfathered and new tenants subject to varying sets of rules.

In conclusion, HANF is a radical proposal with the potential for serious harm. It is unnecessary and unwise to destroy the Section 8 voucher program in order to improve it. Thank you for the opportunity to present the views of the National Leased Housing Association.

Testimony of
Sandra Henriquez, Executive Director of the Boston Housing Authority,
on behalf of the Council of Large Public Housing Authorities,
before the House Financial Services Subcommittee on
Housing and Community Opportunity

June 10, 2003

Good Afternoon, Chairman Ney, Ranking Member Waters and Members of the Subcommittee,

My name is Sandra Henriquez, Executive Director of the Boston Housing Authority. Today, I am representing the Council of Large Public Housing Authorities (CLPHA), whose members manage over 30 percent of the nation's Section 8 tenant-based assistance, primarily in large, urban areas. Thank you for allowing me to testify before you on the Section 8 Rental Assistance Program and the Administration's proposal to block grant Section 8 rental vouchers to the states.

The Section 8 Rental Assistance Program is an important resource for families with incomes below 30 percent of the area median income. Further, it has been estimated that less than a quarter of people eligible for vouchers and other forms of low-income housing assistance actually receive some form of aid. The remainder live in substandard housing, double up with friends or family, are homeless, or are paying more than 50 percent of their income for housing. Section 8 rental vouchers helps solve this problem for nearly 2 million households. We fear that block grants the vouchers to states, however, will undermine this success.

While the stated purpose of the Section 8 block grant proposal is to reduce the amount of funds that are unspent every year and to increase administrative efficiency and flexibility, we believe the block grant proposal is likely to hurt the program and would create a whole host of new problems. CLPHA opposes the block grant proposal for several reasons. First, the Section 8 program, as currently administered, is highly successful, thus not in need of significant reform. The issue of unspent funds can be solved by continuing to provide local public housing authorities (PHAs) with the regulatory flexibility they need to maintain high rates of voucher utilization. An attempt to address unspent funds was made in the fiscal year 2003 appropriation legislation, and more time should be given to evaluate the effectiveness of that system. Second, for reasons outlined below, block grants would result in decreased funding over time and a reduction in the number of needy households served by the program. Third, state block grants would undermine local decision-making and accountability and needlessly add to the bureaucracy and costs to administer the program.

Block granting the Section 8 rental voucher program to the states would also make it more likely that fewer families would be served, and highly likely that fewer needy families will be served. As a result, needy elderly, disabled and families with children will have reduced access to housing assistance. In addition, cash-strapped states are likely to be unable to contribute additional resources necessary to continue housing current number of authorized families.

Section 8 Program is Successful

The Section 8 Rental Assistance Program is a great success by any measure. The Congressionally chartered Millennial Housing Commission in its May 2002 report described the program a "flexible, cost-effective, and successful in its mission." Utilization rates have increased 6 percent over the past year from 89 percent to now slightly over 95 percent. If the trend lines continue, the average national lease rate could reach 97 percent by July of this year. In Boston, we will be at or near 100 percent utilization at that time. According to HUD's April 2002 Report to Congress, 92 percent of administering PHAs were rated as standard- or high-performers under HUD's Section 8 Management Assessment Program (SEMAP). Boston Housing Authority (BHA) has been a high performer since 2000. Finally, in OMB's evaluation of Section 8 as part of the Administration's fiscal year 2003 budget proposal, the housing voucher program rated as a highly effective program, nationwide.

The single greatest predictor of utilization rates is the condition of the real estate market. Tight markets result in lower utilization rates, while loose markets result in higher utilization rates. Boston's vacancy rate was an astounding 1 percent in 1999 and the result where utilization rates in the low 80 percent. In 2001, when HUD gave 39 PHAs in areas with tight real estate markets the permission to increase their FMRs, utilization rates of the effected housing authorities, including BHA, started to climb. In Boston, even with the increased FMR, we were still $100-$200 below the market rate but the increased value of the vouchers, coupled with heavily recruiting landlords to forgo the extra money they could receive on the private market, produced higher utilization of the vouchers.

Another example is the recent softening of the real estate markets in Boston in the past year – which for several years had an extremely tight real estate market, and only 50% of families issued vouchers were successful in finding housing where they could use their voucher. Today, Boston's success rate increased to 80% percent due to changes in the market.

A block grant would result in fewer families being served and would encourage states to serve higher income families

1. *Under the block grant, the amount of money appropriated for the Section 8 program will decrease over time*

Federal assistance to the states is unlikely to keep pace with actual program costs. Current language proposed authorizes appropriation of "such sums as may be necessary" for the housing voucher program. There is no funding formula proposed, and it is not clear whether or not the funding formula will include an inflation factor or a housing cost factor that accurate reflects the increased costs of vouchers in the housing market. Further, an inflation factor or housing cost factor that inaccurately reflects the market will shrink the amount of the block grant over time, and make the allocation unable to serve the same number of people at the same income, over time.

Such a miscalculation is highly likely. HUD's calculation of fair market rents is famously inadequate at keeping up with actual rental costs. The divergence between increasing real estate prices and stagnating incomes of lower-income people has driven up the amount of subsidy needed to serve the same number of people, especially in the recent years. Fair Market Rents have increased 25 percent, while the general inflation rate, as measured by the consumer price index, has risen only 12 percent.

The threat of faulty funding calculations is dramatically evidenced by a recent paper published by the Center on Budget and Policy Priorities. That paper calculated that if the voucher program had been converted to state block grants five years ago, and if the Consumer Price Index were used to adjust the yearly increase in the block grants, states would have been forced to reduce the level of voucher assistance they provide by 13 percent, or 259,000 vouchers.

Another dramatic example can be found in my home state of Massachusetts, which has its own state-funded rental assistance program – a state-funded version of the Section 8 program. In recent years, under the pressure of a heated real estate market, legislators took various measures to cut the costs of the program. Recent changes include an increased contribution from the household and pressure on housing authorities to convert state-rental vouchers to Section 8 vouchers. Even so, the maximum rents the program was willing to pay did not keep up with the market. Landlords have dropped out of the state program in favor of the private market or Section 8, and the program now serves a fraction of the number of families it originally served.

2. *Fewer needy families will be served*

Under the block grant proposal, states could receive waivers for income targeting. The block grant proposal would require that only 55 percent of new admissions to the voucher program have incomes below 30 percent of area median income, a dramatic departure from the current statutory requirement that 75 percent of all new vouchers issued go to very low-income households. When funding drops relative to the number of families served, states can only serve the bill's required same number of families by serving families at the higher end of the income scale, since subsidies for these families cost less. Thus, under HANF states are very likely to be tempted to neglect extremely low-income households – those with incomes below 30 percent of AMI – in favor of households with incomes up to 80 percent of AMI.

Under the proposed Section 8 block grant, HUD would use a number of performance standards to evaluate the performance of a state, and to determine a state's funding allocation for the next year. Performance factors evaluated include the number of families served and the effectiveness of voucher assistance in helping families move toward homeownership and self-sufficiency. There is no evaluation factor for the incomes of the families served or for the poverty level of the neighborhoods where vouchers are used. A larger number of families can be served if the subsidy per family is reduced. Families ready for homeownership tend to have higher incomes. Finally, housing in the poorest neighborhoods is the most affordable. Thus, the changed income targeting requirements and the evaluation factors will each push states to serve higher income families and support the lowest quality housing in the poorest neighborhoods.

Another possible loss of funds from voucher program would be to non-housing activities. <u>Current legislative proposals would enable states to divert voucher funds to replace state spending on homeownership counseling and, depending upon how HUD defines supporting activities, a range of non-housing programs.</u>

3. *Project-based vouchers and disincentives for private landlord and lender participation*

As we understand the proposed legislation, the block grant will not apply to project-based Section 8, which is Section 8 that goes directly to landlords under long-term contracts. No such protection exists for project-based vouchers, which go to PHAs as vouchers and then are converted by PHAs to create hard units through contracts with private landlords.

Housing authorities have the authority to project-base up to 20 percent of their voucher allocation. Although funding has always been subject to appropriations, the consistency of the funding over the past 30 years has led owners and lenders to be confident enough to make long-term agreements based on the assumptions that the number of vouchers approved would be funded, and that the number of vouchers approved always equaled or exceeded the number of vouchers in use. The ability to project base vouchers is an extremely important tool, providing housing authorities with flexibility to provide low-income housing in neighborhoods where it traditionally is not available. We agree with critics of the block grant that the uncertainty of funding inherent in block grants will produce reduced participation in the program by private landlords and lenders for both tenant-based vouchers, project-based vouchers, and for homeownership vouchers. If the rules of the block grant program apply to vouchers that are project-based by housing authorities, the effect on project-based vouchers would be devastating. It is unlikely that any private landlord or lender would rely on long-term contracts ever again for vouchers if the block grant proposal is approved.

4. *The cost of the program is reasonable in light of the need.*

One of the criticisms of the Section 8 Housing Voucher Program is its increasing cost and its increasing share of the HUD budget. Before one accepts that concern, it is fist important to understand that the HUD budget, as a whole, has been cut by more than \$1 billion, over the past two years. Thus, relative to the HUD budget, everything seems to have grown. Congress, however, has asked the Section 8 program to serve larger numbers of tenants in every year since its inception. At the same time, real estate prices have also increased every year since the program's inception. Given the increasing reliance on the Section 8 program coupled with the reduced resources provided other housing programs, the Section 8 program will naturally occupy greater proportion of the HUD budget.

Block Grants mean higher administrative costs and more bureaucracy

State block grants would also add an additional layer of bureaucracy to what is essentially a local program. The Section 8 rental voucher program is currently administered by local PHAs that are accessible and recognizable institutions in local communities. Over time, agencies have developed strong relationships with local property owners and managers who actually provide the housing funded by Section 8. It would be much more difficult for states to recruit and maintain landlords without this local connection. Moreover, vouchers are a crucial component of local affordable housing strategy. Not having direct access to this resource will only complicate and hinder local housing efforts. The greatest proportions of landlords who participate in the voucher program both nationally and in Boston are small business-owners – people who own less than 5 units. These landlords depend upon Section 8 payments to pay for their own housing, and also serve the goal of de-concentrating poverty.

The block grant proposal erroneously argues that the states will be more responsive to local markets than HUD. However, in the current system, local housing authorities administer the voucher program. The block grant proposal envisions giving control normally exercised by local housing agencies to state agencies. Thus, the power of decisions about local markets will move from the locality to far-away state capitals. All real estate is local, and states will be *much less* effective responding to changes in local real estate markets than local housing authorities. Better responsiveness could be achieved by streamlining federal regulations and providing flexibility to local housing authorities. Recently regulatory and statutory changes have done just that, and have produced the recent improvements in utilization.

1. Administrative fees

The 2003 Omnibus Appropriations bill included a provision that will cap the amount of administrative fees a public housing authority can accumulate in its administrative reserve fund. Housing authorities use these funds to provide resident services, construct new units, meet shortfalls in their operating budgets, and for other low-income housing purposes for which there is no other source of funds. Capping the amount of these funds will have the effect of lowering available funds for effectively managing and developing affordable housing.

Boston currently uses this earned administrative fee to fund a variety of low-income housing programs. Boston has used Section 8 administrative fees to fund a security deposit fund for homeless families and to pay for a lease-up counselors to assist homeless families in Boston find housing. Boston has also used Section 8 administrative fees as bridge loans for such programs has HOPE VI, to support operating costs of its public housing, since these funds have been severely cut in recent years, and other low income housing programs. The flexibility to use this earned fee for a variety of low-income housing programs is crucial to maintaining a cost effective housing strategy for low-income households that meets local needs.

H.R. 1841 also proposes to cap administrative fees at 10 percent of the total funding pool. This cost cap will hurt states with low Fair Market Rents, with large geographic areas, and many small programs. Other proposals suggested restricting fees to activities related to the provision of rental assistance under the Section 8 program. These proposals will only undermine housing authorities' ability to use money to effectively provide housing to low-income people, not lower the cost of the program.

It is highly likely that many state administrators will still contract with local housing authorities to administer most of the program locally. Administrative fees will be split between two layers of bureaucracy – the states and localities. This fee sharing, paired with reductions in administrative fees proposed by the statutory language, will make it even more difficult to administer the program effectively.

A dramatic example of the impact of the lost funding can be found in the President's fiscal year 2004 budget proposal, which includes an additional $100 million for start-up costs for the block grant program. These funds could be used, instead, to support 15,000 vouchers for families. This use of valuable housing resources for administrative costs is not necessary if the current system is maintained.

Operating a well-run Section 8 program can be labor intensive and costly. Recent changes in the system for calculating and using fees will make it increasingly difficult for PHAs to use their resources effectively. We hope to work with you in developing any future proposals to change the administrative fee provisions, so that we can ensure such changes will not jeopardize the effectiveness of these programs.

Conclusion

The Section 8 program is effectively serving many of our neediest citizens. A greater degree of flexibility in current program regulations would enable local housing authorities to respond more effectively to changes in local markets. A system of state block grants can only hamper local responsiveness and add an expensive additional layer of bureaucracy. The funding system contemplated by the block grant proposal creates incentives for Congress to under-fund the program, and for states to use the funds for less-needy citizens, as well to divert funds for non-rental assistance purposes.

It is important to note that the block grant program is not really optional, as the administration keeps asserting. The only option available to states is whether or not a state entity administers the program. If a state decides that it does not want to administer the program, HUD will select an agency, most likely a high-performing housing authority within the state, to administer the program. Thus, all of the problems of a block grant will apply to every state, regardless of whether or not it elects to participate in the program.

Greater flexibility for local housing authorities, carefully crafted, would best maximize the use of Section 8 funds to serve local families. Further, this program only works with enough funding – enough funding to effectively administer the program and enough funding to meet market demands. The block grant proposal clearly contemplates less funding for the Section 8 rental assistance program, and we therefore urge you to reject this legislation.

Written Testimony
Tino Hernandez, Chairman of the New York City Housing Authority
for a hearing regarding
H.R. 1841 – Housing Assistance for Needy Families Act (HANF)
before the
Housing and Community Opportunity Subcommittee
House Financial Services Committee

June 10, 2003

Chairman Ney, Ranking Member Waters, and Members of the Committee, thank you for this opportunity to testify before the Subcommittee on Housing and Community Opportunity and discuss H.R. 1841, which would eliminate the Section 8 Housing Choice Voucher program and replace it with the Housing Assistance for Needy Families (HANF) block grant program to the states.

The New York City Housing Authority (NYCHA) operates the largest public housing program in the United States and administers the nation's most extensive Section 8 program. As of May 31, 2003, there were approximately 105,000 locally administered Section 8 apartments in New York City. NYCHA currently has under contract 85,928 vouchers with an estimated 214,000 residents and a total of 27,694 private owners participating in the program. Our sister agency, the Department of Housing, Preservation and Development (HPD) oversees another 19,000 vouchers. Only the entire states of California and Texas encompass larger Section 8 programs than New York City. We therefore have much at stake in the deliberations of this Subcommittee and the ultimate disposition of the pending legislation. The outcome of this process will have a significant impact on the well being of our resident families and the overall condition of housing in the City of New York.

New York City's Section 8 program is among the most successful in the nation. NYCHA's voucher utilization rate is approaching 98% and growing, while HPD's is now over 100%. Despite the magnitude of our program, the diversity of our population, and the inordinately tight housing market found in New York City, we have much in common with housing authorities across the country and share the same challenges in managing our diminishing resources.

We have given serious consideration to the Administration's proposal to block grant Section 8 funding to the states. We have come to the conclusion that the HANF proposal would not improve the delivery of tenant-based assistance but rather would have a negative impact on the Section 8 program in New York City.

We appreciate that an underlying impetus for the HANF proposal was, in part, the significant under-utilization of Section 8 throughout the country. However, we understand that utilization is up nationwide, the trend has been reversed, and it would therefore be prudent and practical to allow the corrections in last February's Appropriations Act to take effect. Thus, we feel another dramatic restructuring is premature, but beyond that, the HANF proposal itself has serious intrinsic flaws.

First, the fact that HANF would add an unnecessary and costly third administrative layer is disturbing, resulting in superfluous red tape and waste. We know this will be true for NYCHA, where a critical change in the delivery system has the potential for disrupting the success of the current program. We do not believe that redirecting local funds to the states would simplify the distribution of Section 8 vouchers; rather this would complicate the process and make it less direct.

The HANF proposal also threatens to change a critical element of the Section 8 program that has been instrumental in getting owners to participate. In New York City, HPD and NYCHA have tailored elements of their program to unique local market conditions to make the program more attractive to landlords. Under HANF, the state will set income eligibility standards and determine who would continue to receive subsidies. Thus, they could institute a rule whereby all households would be terminated after a certain period, or whereby tenants living in certain sized apartments or in certain areas would be dropped from the program. Even the potential for this to happen will have a dramatic "chilling" impact on owners deciding whether to rent to voucher holders or other tenants. In fact, the prospect of having to evict an extremely low-income tenant who had never missed a rent payment, but is now unable to make up the loss of their voucher subsidy would be daunting for many owners. Leaving aside for a moment the very real torment that the loss of subsidy could bring to the family, the owner in places like New York City must undergo lengthy and costly court proceedings before being able to once again realize market income from the apartment.

By establishing the states as intermediaries, additional administrative costs will be incurred, which may not be fully funded. With the budget challenges faced on the city and state levels, it is doubtful that they will be able to contribute additional resources necessary to administer effectively. Any shortfall could be passed along to the local housing authority or to the resident family, thereby further limiting available assistance and the number of households that will be served. In New York City and New York State, as in cities and states nationwide, we presently face stark fiscal challenges. HANF would result in additional administrative costs with no additional federal appropriation. And this, in New York City's view, would only be the beginning of an added financial burden.

Furthermore, the HANF proposal while purporting to reduce the regulatory environment includes a grandfathering provision that achieves the opposite result by adding to the administrative complexity of the Section 8 program. For the first five years of the program (2005-2009), current Section 8 tenants will be grandfathered under existing Section 8 regulations. If a State changes the program's rules, these current participants will not be affected during this period. However, in 2010 they will be transferred to HANF and subject to the respective State's new rules. Meanwhile, new voucher holders will be subject to the new rules as developed and implemented by each State. The end result is that for five years, each State will have to administer two separate Section 8 tenant-based programs with potentially different income guidelines, payment standards, rent calculations, etc. This will place an excessive burden on building owners and the administering entities that will have to comply with two different sets of standards.

Second, block grant funding generally fails to keep pace with inflation, let alone the true need for assistance. In contrast, Section 8 funding has been based on the *actual* costs of affordable housing. The *Center on Budget and Policies Priorities* analyzed 11 block grants that serve low-income families in the areas of housing, health and social services. Their analysis showed that when these grants were adjusted for inflation, funding fell by an average of 11% from 1982 to 2003. We note as well that during the five-year period 1998 to 2003, the Consumer Price Index rose by 12%. During the same period, Section 8 Fair Market Rents rose by 25%. We therefore fear that a block grant approach will fail to keep pace with program costs.

As the block grant erodes over time, states would be faced with the difficult choice of providing shallower subsidies, reducing the number of families served, serving higher income households, or using State revenues to fill the gap.

Moreover, the Budget Resolution approved by Congress in April 2003 provides for a $168 billion reduction in domestic discretionary programs from 2003 to 2013. Funding for the Section 8 Housing program is drawn from this budget category. While we are concerned as to the levels of assistance that may be approved for this year, the long-term prospect for adequate funding is bleak.

Third, it is axiomatic that housing authorities are more familiar with local housing conditions than state governments are. Housing conditions vary widely from city to city and no state agency can know New York City as NYCHA knows it, any more than NYCHA would presume to evaluate housing conditions in any other city of the state. The pending legislation contemplates *regional* administration of the Section 8 program, crossing jurisdictional lines.

Mayors would lose control over their Section 8 programs because administration will shift to entities not responsible to City Hall. NYCHA works closely with the Mayor and its sister housing agencies to ensure that the City's priorities are addressed. For example, NYCHA's admission preferences reflect the City's homeless and domestic violence issues. HPD's program also targets homeless families, as well as those tenants in danger of being displaced through development activity.

Another vivid example is the scarcity of affordable housing in New York City, which is hard to imagine until it is experienced. But it is another compelling factor in favor of a strong and effective Section 8 program that both maintains current levels of funding as well as provides additional vouchers. NYCHA is working in collaboration with its sister city agencies to carry out Mayor Michael J. Bloomberg's initiative to produce 65,000 additional units of affordable housing over the next four years. The Mayor's program, which is intended to preserve the existing housing stock, produce additional housing and identify development opportunities, is supported by the Section 8 program's role in preserving existing housing stock. The imposition of any constraints on the Section 8 program could have a detrimental impact on New York City's effort to increase affordable housing and house homeless families. Suffice it to say that New York City's vacancy rate is among the lowest in the country and that the vagaries of the city's real estate market are unlike any other. But just as New York is unique, so is every city, large or small, and each best understands its housing needs.

It is also important to point out that virtually all of the new, more flexible program rules that would be directed to States to improve utilization rates could be afforded to local housing agencies without changing the existing structure of the program or adding another layer of bureaucratic administration. For instance, the proposal to allow States to conform inspection schedules to the Low Income Housing Tax Credit rules and to use State and local housing codes rather than HUD's Housing Quality Standards could be offered immediately to housing agencies on a voluntary basis. Similarly, it would be more appropriate to allow local housing agencies, as opposed to States, the right to establish Fair Market Rents/Standards, as proposed in the HANF legislation.

NYCHA's concluding point in favor of preserving our successful Section 8 program is very much a national issue: the portability of vouchers. Section 8 is not a state housing program. It is a national housing program. The recipient of a Section 8 voucher is now free to take that voucher anywhere in the United States and use it to acquire housing. States with differing regulations could impair this portability, which is one of the highlights of the Section 8 program. It is very possible that a recipient may not be able to seek better education, new employment, health care, or neighborhoods of greater opportunity across state lines because of incompatible state regulations. HANF, and the block grant it proposes, might very well produce an effect diametrically opposed to its intention by restraining rather than encouraging self-sufficiency.

Thank you again for this opportunity to offer our views regarding H.R. 1841. I will be happy to answer any questions you have.

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TESTIMONY

OF

JAMES M. INGLIS

NAHRO SENIOR VICE-PRESIDENT

BEFORE

THE

HOUSE SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

TUESDAY, JUNE 10, 2003

e-mail: nahro@nahro.org Web Site: www.nahro.org

James M. Inglis, Senior Vice President
National Association of Housing and Redevelopment Officials
The Subcommittee on Housing and Community Opportunity
June 10, 2003

Good morning, Mr. Chairman. I want to thank you for the opportunity to testify before you today to discuss the Housing Choice Voucher (HCV) Program. My name is James M. Inglis and I am the Executive Director of the Livonia Housing Commission in Livonia, Michigan. As Executive Director of the Livonia Housing Commission, I oversee housing and community development programs that assist approximately 1,500 low- and moderate-income families. The Commission administers the conventional Public Housing Program, Section 8 New Construction Program, Community Development Block Grant Program, HOME, Local Bond Financed low-income housing and the HCV Program. The Commission is currently a high performer under the Public Housing Assessment System and the Section 8 Management Assessment Program.

I am here in my capacity as Senior Vice President of the National Association of Housing and Redevelopment Officials (NAHRO). NAHRO is the oldest and largest membership organization in the United States devoted to affordable housing and community development. NAHRO represents more than 19,000 agencies and individuals. NAHRO members administer approximately 93 percent of the nation's Section 8 tenant-based housing choice vouchers. We also represent about a third of the state agencies that administer the voucher program. In total, our members administer more than 95 percent of all vouchers and public housing units.

Efficiency, Cost Effectiveness and Inclusiveness

The HCV program is highly successful, serving nearly 2 million families nationwide. The congressionally chartered Millennial Housing Commission found the program is "flexible, cost-effective, and successful" and should continue to be the "linchpin" of national housing policy. Bipartisan reforms enacted in 1998's Quality Housing and Work Responsibility Act (QHWRA) streamlined the program and set the stage for improvements in voucher utilization, which is estimated to be in the neighborhood of 94 to 96 percent this year and next, respectively. Actions taken by Congress in FY 2003 created a more efficient funding system that, with accurate and timely information, will serve all authorized families using vouchers while reducing the recapture of unused budget authority. This record of success makes the administration's proposal to transfer administration of the voucher program to the states (H.R. 1841, the Housing Assistance for Needy Families Act of 2003) perplexing to us.

The Administration proposed H.R. 1841 with the assumption that programmatic reform and greater efficiency could only occur if the states administered the program. This is not true. The HCV program currently ensures that families use at least 90 percent of the vouchers for each agency. HUD projects an average national voucher lease up rate in FY 2004 of 96 percent. In education terms, the voucher program is performing at the same rate as an honors student in our local school.

Imagine if the schools in your congressional district were graduating children with grades of over 90 percent. If comparable grades were given to housing agencies no one would suggest that reform of HANF's magnitude is necessary.

A new NAHRO report shows states would face $1.1 billion to $1.8 billion in costs over the next five years to close the funding gap likely to be created by HANF. Whether inflated by Consumer Price Index or Annual Adjustment Factors, 42 out of the 50 states (84 percent) would experience funding shortfalls under HANF over the next five years. An explanation for how each of the states would likely be affected is included in Attachment A.

HUD already has the ability within its existing framework to implement regulatory reforms to improve the program's current success. Such steps include completing the streamlined Section 8 Project-Based Voucher rule; streamlining Fair Market Rent adjustments through use of current information and delegation of authority to its field and regional offices; timely reallocation of unused vouchers; completing efforts at small agency deregulation; facilitating the use of the consortium provision under QHWRA, and sharing a recent Section 8 utilization study with Local Housing Agencies (LHAs) and Congress. NAHRO recently submitted a letter to Secretary Martinez recommending the Department take these actions to accomplish its stated goals (see Attachment B).

The Livonia Housing Commission understands the local housing market as it relates to vacancy rates, reasonable rents, and housing quality issues. The local flexibility and authority to set fair market rents that reflect the actual rents in the area and the ability to adjust in a changing market is critical for voucher utilization. As a current high performer under the Section 8 Management Assessment Program (SEMAP), my agency is granted no regulatory relief. The Department is citing the burden of administering 2,510 Voucher agencies in proposing HANF. Instead, they would be well served to reform SEMAP, Section 8 Project Basing and deregulate small-medium size agencies, which pose no financial or administrative risk to the Department.

HANF's departure from the program's current structure, where funds go directly to local agencies based on communities' relative worst-case housing needs within each state, agency's utilization rates, and elements of SEMAP, concerns us for many reasons.

HANF will allow a state's governor to determine rental assistance funding levels, which would influence where families lease units and how funds will be distributed. The need for economies of scale and ease of program administration could reduce vouchers for rural families. This scenario already has occurred in several states, which then chose to divest themselves of the HCV program to LHAs. Currently, eligible families in need, regardless of location, receive assistance if they qualify.

Second, imposing current federal funding, monitoring and oversight responsibilities on the states will add a layer of bureaucracy, complication and expense to rental assistance. Ostensibly, the HANF proposal does not eliminate the structure of the existing voucher program immediately. A "grandfather" clause would require states to maintain the existing program structure and rules concurrently as they develop infrastructure and technology to administer a new program. The Administration allowed for this development by budgeting up to $100 million for new infrastructure and technology – money that could otherwise be used to assist almost 16,000 low-income families.

Housing voucher assistance is essentially a local function, reliant upon local agencies to work with landlords and changing local markets to help families find housing at a reasonable cost. LHAs have over 30 years of experience administering the HCV program in all 50 states, except Alaska. Local agencies have developed relationships with landlords that could be jeopardized with such a drastic change to the existing program. A list of the benefits offered by local administration of the program is located in Attachment C.

For example, the Consolidated Plan required by the Community Development Block Grant Program requires my agency to identify the housing needs of families, elderly and disabled and further identify and propose housing strategies to address those needs. The HCV program is a key program, which provides housing assistance to low- and moderate-income families of various size. The loss of this valuable resource to the state will inevitably result in reduced assistance to our low-income residents.

Additionally, the Livonia Housing Commission has an excellent relationship and cooperation with the City of Livonia and local landlords, which enable us to attract new landlords, address local housing quality issues and allocate housing and community development resources to local neighborhood. Local flexibility and relationships would be disrupted by state administration of the Voucher program.

Out of 50 states, more than half have: 1) no experience administering the program, 2) voluntarily or involuntarily relinquished all or part of the program, or 3) administer 5 percent or less of the vouchers. On a national basis, LHAs administer approximately 86 percent of vouchers, and states administer the remaining 14 percent. On balance, nothing indicates states are prepared to assume full administration of HUD's largest assisted-housing program, serving nearly 2 million households. Some states will consider subcontracting the program to LHAs or nonprofits after first reserving their own administrative and overhead costs. The net effect is to introduce an expensive middleman into the program, thereby reducing the resources most available for the people that need them. More government in a time of scarce resources is not the solution.

NAHRO believes that proposals seeking to create regional or state housing organizations to administer the Section 8 program nationwide, will not address the real obstacles to poverty deconcentration and lack of metropolitan-wide access to extremely low- and low-income households receiving Section 8 assistance. Proposals to "regionalize" the Section 8 program are put forth with the assumption that changing the local administration of the program will alleviate the concentration of Section 8 households as well as alleviate poverty concentration. Systemic problems such as Section 8- and poverty-concentration result from the complexities of the rental housing market, exclusionary zoning practices designed to limit the availability of affordable rental housing, and housing discrimination, among other factors.

Third, Congress enacted a provision in the FY '03 appropriations bill that allows housing agencies to more accurately account for voucher costs for the next fiscal year. For the first time, HUD could more accurately predict the amount needed to run the voucher programs and thus reduce recaptured funds. Congress funded vouchers currently in use, but remained committed to fund all authorized vouchers in a fiscal year at their full value. This is not a cut to the program, but a more accurate means of funding the real costs of serving families while rewarding good performance. There is no such provision in HANF. It makes sense to allow the 2003 reform to take effect before dramatically changing the program.

Fourth, HUD's FY 2004 HANF proposal would cap Section 8 administrative fees to 10 percent of housing agencies' Annual Budget Authority for units under lease, which would undermine self-sufficiency efforts, unfairly lower administrative fees in rental markets where agencies had relatively lower Housing Assistance Payments, and jeopardize necessary funding to ensure program compliance as well as services to families.

NAHRO completed a recent study on the impact the proposed 10 percent administrative fee cap would have on current state housing agencies administering the program (see Attachment D). The study shows the current HANF proposal will result in an unfunded mandate on the states. There is no provision for an increase in administrative fees for state administration. Under a 10 percent cap, the states will either have to expend their own resources to provide adequate coverage or retain a portion of administrative fees that are used to support local capacity. Diminished local capacity will impact communities' ability to respond to the needs of their communities. For example, Colorado's local housing agencies were the first responders in assisting those who were left homeless as a result of recent wildfires, tornadoes and floods.

NAHRO's study estimates that HANF would reduce administrative fees by 13 percent ($12.9 million) for states and territories handling the Section 8 tenant-based HCV program, compared with current fees. NAHRO found the fee cap seems to disproportionately harm state housing agencies working in multiple, non-metropolitan areas or with low housing costs. States and territories currently administer 14 percent of the nation's authorized vouchers. Financial losses are likely to grow dramatically if states assume administration of the remaining 86 percent of units under HANF. Such losses would undermine states' ability to adequately serve low-income households, whether they administered the program directly or subcontracted to local entities.

Despite proposed administrative fee reductions, HANF would require states to maintain housing quality standards, ensure reasonable rents, and track individual income and employment information. States subcontracting with local agencies or even operating local offices—which they must do to cover large geographic areas—must manage administrative fees accordingly. At the same time, states will assume oversight and information management responsibilities, many of which are now conducted by HUD. The costs of this transition could be substantial.

Examination of the HANF proposal's provisions on funding for Housing Assistance Payments or administrative fees does not reveal an encouraging picture—either for local housing agencies or for the state entities that would ultimately administer the block-granted voucher program. NAHRO believes that both state and local housing agencies and the communities they serve are better off under the existing HCV program than they would be under the HANF proposal.

Fifth, HUD is asking Congress to make the difficult and unnecessary decision to reduce assistance to families on the program. HANF makes no provisions for adjusting the overall appropriation for actual housing costs. Instead, it uses housing costs as one of several measures for apportioning the finite block grant between states. The current HCV funding system adjusts to actual rental costs.

Historically, block grants fail to keep pace with inflationary adjustments, let alone real costs. Rents have increased over the past five years by an average 25 percent, while the Consumer Price Index has risen only 12 percent. The history of block grant funding for domestic programs strongly suggests significant appropriations risks to states and participating property owners under HANF. If the value of the block grant erodes, states will need to serve higher-income families, reduce the number of low-income families served, or supply scarce state funds to fill the gap left by federal retrenchment. "Flexibility" may mean the freedom to choose between unpalatable options. If you support and adopt this proposal, you will in effect reduce the assistance low-income families receive over time.

Sixth, I am also concerned that HANF would give the Department the ability to exceed 80 percent Area Median Income (AMI) for the elderly and disabled. This policy calls into question the public value of the program for low-income households. As worded, HANF assistance could be misdirected as an operating subsidy to market-rate rental housing, homeownership and assisted living arrangements for seniors and disabled households, representing a major shift in national housing policy objectives. The removal of state and local barriers to affordable housing are stipulated as performance standards that the Secretary could use to withhold funds, but other criteria such as furthering disability access and fair housing compliance are not mentioned. HANF appears to shift responsibility for establishing major policy objectives from Congress to the Department.

Under HANF, HUD may establish higher income ceilings for elderly and disabled families. At least 75 percent of new admissions must have incomes under 30 percent of AMI. However, HUD may grant a waiver lowering the targeting requirement to as few as 55 percent of new admissions under 30 percent of AMI if the state demonstrates inability to reach 75 percent targeting.

While the targeting provision is similar to HCV program requirements, the legislation seems to apply the targeting on a statewide, aggregate basis. In practice, this would allow governors to serve certain parts of the state with 100 percent of the vouchers going to households at or above 80 percent AMI, while serving other parts of the state with 100 percent of the vouchers going to households below 30 percent AMI, so long as in the aggregate they met the income targeting requirements below 30 percent AMI. By contrast, the current income targeting requirement of 75 percent of vouchers going to households below 30 percent AMI must be met within the service area for each LHA that administers the program, allowing for a greater diversification of assisted households throughout each state. If enacted, HANF would mark a dramatic change in one of the basic tenets of the program reached by bi-partisan agreement during QHWRA. Furthermore, HANF allows Governors to set different payment standards within the state. If QHWRA's income targeting requirements and Fair Market Rent structure are both compromised under HANF, it would allow for states to further segregate low-income households into communities of haves and have-nots through economic or other pressures, while using Federal funds. The program's current structure enables low-income households to live largely in poverty deconcentrated neighborhoods which has been a big part of its success in enabling families to enjoy a better quality of life as well as to self-sufficiency. We do not believe that it is the intention of Congress to undo this progress.

Since the enactment of QHWRA the eligibility income limits under the Section 8 HCV program have been at 80 percent of AMI. However, LHAs that want to serve households with incomes above 50 percent of AMI under the existing program must provide its justifications in their PHA Plan. The current PHA Plan process is an important community accountability tool, incorporating the comments of a Resident Advisory Board requiring public hearings. PHAs choosing to alter their policies must first answer directly to the concerns of their community.

Seventh, while presented as an attempt to increase flexibility, the HANF proposal continues requirements that fit within the Department's priorities. The proposal would allow HUD significant discretion in designating the performance criteria that would determine future funding eligibility. For example, the proposal would *mandate* a $50 minimum tenant rent. Congress already *permits* LHAs to establish minimum rents between $0- $50 per month. This would seem to be a reduction in choice for local communities, but it is an administration priority. Under HANF, states would be saddled with the "flexibility" to grant a hardship exemption on a case-by-case basis.

Additionally, HANF's funding comes with some future HUD performance requirements that would usurp state and local decision-making. Under HANF, states must incorporate HUD's future and yet undefined performance standards into their Comprehensive Housing Affordability Strategy (CHAS), propose performance standards, and report accomplishments based on those standards.

Eighth, the bill is also unclear about the consequences when governors opt out of the program. Many states are facing their worst deficits since World War II. Already, the governors of Pennsylvania, Illinois, Oregon and Washington have declined to participate in HANF. The HANF proposal's fiscal demands and complexity will likely cause many more to opt for the current local administrative mechanism.

It is a false notion to suggest the Section 8 HCV program will be run more efficiently by 50 States and four Territories than by the 2,510 local housing agencies. HUD's assertion that it cannot properly oversee 2,510 local housing agencies is not supported by its own *SEMAP Report to Congress* (April 2002). HUD's report demonstrated the quality of its management information systems to provide proper oversight and accountability to all existing housing agencies. HUD's report states, "It does seem to be used already as the tool it was intended to be: to help HUD Field Offices focus limited resources in the most effective way, to monitor PHA performance and to allow HUD to effectively target technical assistance." In FY 2001, GAO reported: "HUD was above the rest of the government in aspects of agency climate, performance measurement, and particularly, in the use of performance information." According to HUD's FY 2004 Annual Performance Plan, only 6.1 percent of units are expected to be administered by troubled housing agencies in 2003.

Despite HUD's success in overseeing approximately 2,510 housing agencies that administer the HCV program as demonstrated in its SEMAP report to Congress, HUD's senior officials now claim that the Department is not capable of overseeing this many agencies. In fact, direct reporting of program information to HUD through HUD's Public and Indian Housing Information Center via the Internet provides efficient and effective monitoring and oversight of existing housing agencies. While it is true that these systems encounter occasional difficulty, any system problems that occur are likely to be replicated within the multiplicity of state reporting systems that would be created under HANF. The federal government has an appropriate economy of scale to address such information system issues. HUD officials have talked about devolving oversight and greater decision-making responsibility from HUD Headquarters to its Regional and Field Offices. If the Department follows through with its plan, it will have even greater oversight capabilities.

Under this Administration, HUD officials have devolved greater oversight and decision-making responsibility from HUD Headquarters to its Regional and Field Offices on SEMAP, to expand its capabilities in the field. In addition, the Section 8 HCV program has one of the department's few financial information systems cleared by GAO – HUDCAPS - to effectively monitor 2,510 housing agencies.

It is important to note that many states currently have manual reporting systems, and will have to manage the cost and conversion of data for approximately 2 million households from LHAs to the state level. If enacted, HANF would create the largest administrative upheaval the program has ever experienced, take program administration farther away from the communities it was designed to serve, and disrupt what is otherwise a stable funding source for almost a million property owners around the country. HANF would create an unwieldy patchwork system that would strain HUD's Public and Indian Housing Regional and Field Office staff who often cover both Section 8 HCV and Public Housing programs.

Conclusion

The current program works. It does need improvements, as articulated in our letter to the Secretary. The HANF proposal is a solution looking for a problem. The Department has not offered any credible evidence to suggest that the current program needs dramatic overhaul of this nature, that HANF offers a significant improvement to the current and that reforms enacted within the last year are not working. We strongly recommend that the subcommittee not pass the HANF proposal but look to the administrative recommendations we have made to the Secretary and encourage the Department to pursue improvements of the existing program within its current purview.

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NAHRO DirectNews: Section 8
Attachment A - NAHRO Expands On Study To Project States' Future Shortfall under HANF

May 29, 2003 - A new NAHRO report shows states would face $1.1 billion to $1.8 billion in costs to close the funding gap created by the administration's voucher block grant proposal. The Housing Assistance for Needy Families (HANF) proposal, H.R. 1841, would block grant Housing Choice Vouchers (HCV) to the states.

States' average annual funding shortfalls under HANF represent a 2 to 3 percent reduction in states' annual budget authority under the HCV program, using HUD's Annual Adjustment Factors (AAF) and the Consumer Price Index (CPI) respectively. Whether inflated by CPI or AAF, 42 out of the 50 states (84 percent), would experience a funding shortfall under HANF over the next five years.

NAHRO's report, recently released to Congress, builds upon a recent study by the Center on Budget and Policy Priorities (CBPP) which examined the difference between each states' Section 8 rental cost increases versus HUD's AAFs and the CPI over the last five years.

CBPP's study found that over the past five years, Fair Market Rents (minus the national average tenant rent) increased on average by 25 percent, while the CPI rose by only 12 percent over the same period. Historically, block grants have not kept up with inflation, let alone real costs. HANF makes no provisions for adjusting the overall appropriation for actual housing costs. Instead, it uses housing costs as just one of several measures for apportioning the finite block grant between states, based on the amount appropriated by Congress in FY 2005 and beyond. In comparison, the current voucher program is funded based on actual rental costs, so as housing costs rise, subsidy levels rise, and vice-versa.

According to CBPP, "had the voucher program been converted to a block grant to states five years ago, states would have been forced to reduce the level of voucher assistance they provide by 8 percent (equivalent to 163,000 vouchers) if funding had been adjusted using the Section 8 annual adjustment factors and by 13 percent (equivalent to 259,000 vouchers) if funding had been adjusted based on the CPI."

NAHRO applied the FY 2003 average per unit cost (PUC) for each state (based on November 2002 Local Housing Agencies survey data) to the number of families CBPP's study found would not have been funded over the last five years. Using CPI as the inflation factor, NAHRO projects funding shortfalls for states under HANF over a five-year period to equal approximately $1.8 billion nationally, ranging from $100,000 in Wisconsin to $727 million in California, affecting 42 out of the 50 states.

Using FY 2003 PUC provides conservative cost figures. A more accurate and likely more costly projection would include the projected average PUC from FY 2005 – FY 2009.

NAHRO also determined the amount of each states' annual funding shortfall under HANF as a percentage of their FY 2003 annual budget authority. California, Massachusetts, and the District of Columbia would have experienced a 6 percent cut from their annual budget authority in FY 2003. Colorado, Maryland and Minnesota would have experienced a 5 percent annual cut; Missouri, Virginia and Georgia 4 percent; and Arizona, Ohio, New Hampshire and Oklahoma 3 percent. Twelve other states would have experienced an annual cut of 2 percent, and 7 other states would have experienced a 1 percent cut. Seemingly small percentage reductions in HCV budget authority amount to large amounts of funding cuts, since more than 1. 8 million families are served under the program at an average annual per unit cost of approximately $6,372.

In general, states face their worst fiscal condition since World War II. The National Governor's Association (NGA) state they face a $30 billion gap between revenues and spending commitments in FY 2003. The NGA also anticipates a funding shortfall of $82 billion in FY 2004. States' fiscal problems have resulted in frozen programs or cuts. The General Accounting Office, a non-partisan arm of the federal government, testified on block granting during a 1995 Senate hearing, stating, "Given that states tend to cut services and raise taxes during economic downturns, these cash assistance programs could experience funding reductions that could affect vulnerable populations. Unlike the federal government, state governments have less flexibility to initiate financial measures to counter economic trends. In addition, some experts suggest that states have not always maintained state funding for cash assistance programs in times of fiscal strain."

If the value of the HANF block grant erodes over time, as history and CBPP's study suggest, states would be faced with unfortunate choices — providing shallower subsidies, serving relatively higher-income families, reducing the number served, or supplying scarce state funds to fill the gap left by federal retrenchment. The "flexibility," HUD advertises for HANF may mean the freedom to choose between these unpalatable options.

NAHRO members are encouraged to use this information with local and state elected officials, as well as local media outlets. NAHRO members are encouraged to attend congressional members' town meetings when they are back in their home districts for the Memorial Day District Work Period May 26 – 30.

An overview of all 50 states can be downloaded at: /members/news/2003/may/HANF-5years.pdf

One-page explanations for each of the 50 states with projected funding shortfalls can be found at: /members/news/2003/may/HANFallstates.pdf (Large file - 334 kb, allow time for download).

A full copy of CBPP's study on which NAHRO based its funding shortfall projections, can be located at: http://www.cbpp.org/3-3-03hous2.htm.

Questions and comments about this study should be directed to Policy Analyst Jonathan Zimmerman at jzimmerman@nahro.org, 1-877-866-2476 ext. 238 or Program Analyst Rosemary Ngwiri at rngwiri@nahro.org or ext. 229.

States' Projected Shortfall Under HANF Over the Next Five Years

State	# of Vouchers	Difference Between State's Rental Costs vs. CPI (Over Last 5 Years)	Number of Families Not Federally Funded (Over 5 Years)	State's Annual Per Voucher Cost	Funding Shortfall to State Using CPI	Difference Between State's Rental Costs vs. AAF (Over Last 5 Years)	Number of Families Not Federally Funded (Over 5 Years)	Funding Shortfall to State Using AAF	State's Total HCV Budget Authority in FY 2003	Annual Reduction in Annual Budget Authority Under HANF, Using CPI as Inflation Factor	Annual Reduction in Annual Budget Authority Under HANF, Using AAF as Inflation Factor
Alabama**	27,779	1%	304	$3,852	$1,171,008	-3%	-756	-$2,912,112	$106,165,791	0%	-1%
Alaska**	4,093	4%	167	$6,360	$1,062,120	1%	33	$209,880	$25,827,393	1%	0%
Arizona**	20,277	-16%	-3,286	$6,072	-$19,952,592	-13%	-2,573	-$15,623,256	$122,156,668	-3%	-3%
Arkansas**	22,465	2%	423	$3,864	$1,634,472	-2%	-394	-$1,522,416	$86,124,211	0%	0%
California**	301,398	-29%	-87,018	$8,364	-$727,818,552	-16%	-47,647	-$398,519,508	$2,501,129,072	-6%	-3%
Colorado**	27,887	-23%	-6,346	$5,976	-$37,923,696	-8%	-2,254	-$13,469,904	$165,346,155	-5%	-2%
Connecticut**	34,077	-9%	-3,070	$7,260	-$22,288,200	-5%	-1,782	-$12,937,320	$245,459,412	-2%	-1%
Delaware**	4,526	-2%	-69	$6,024	-$415,656	-3%	-146	-$879,504	$27,050,869	0%	-1%
DC	9,886	-27%	-2,719	$8,304	-$22,578,576	-22%	-2,223	-$18,459,792	$81,449,732	-6%	-5%
Florida**	89,885	-8%	-6,758	$6,900	-$46,630,200	-9%	-7,827	-$54,006,300	$615,344,081	-2%	-2%
Georgia**	47,555	-19%	-8,896	$7,212	-$64,157,952	-12%	-5,822	-$41,988,264	$340,277,801	-4%	-2%
Hawaii**	11,967	37%	4,364	$8,484	$37,024,176	21%	2,489	$21,116,676	$100,732,048	7%	4%
Idaho**	6,463	6%	381	$4,884	$1,860,804	0%	0	$0	$31,317,820	1%	0%
Illinois**	84,223	-11%	-9,115	$7,428	-$67,706,220	-1%	-721	-$5,355,588	$620,703,674	-2%	0%
Indiana**	36,373	-1%	-432	$4,836	-$2,089,152	-1%	-512	-$2,476,032	$174,520,773	0%	0%
Iowa**	21,315	-1%	-167	$4,176	-$697,392	-5%	-1,095	-$4,572,720	$88,313,590	0%	-1%
Kansas**	10,637	-9%	-980	$5,004	-$4,903,920	-7%	-716	-$3,582,864	$52,810,244	-2%	-1%
Kentucky**	31,067	-2%	-751	$4,836	-$3,631,836	-6%	-1,783	-$8,622,588	$149,062,130	0%	-1%
Louisiana**	36,513	-10%	-3,486	$4,296	-$14,975,856	-12%	-4,208	-$18,077,568	$155,630,067	-2%	-2%
Maine**	12,413	-7%	-830	$5,532	-$4,591,560	-8%	-966	-$5,343,912	$68,130,353	-1%	-2%
Maryland**	42,318	-24%	-10,160	$6,408	-$65,105,280	-19%	-8,052	-$51,597,216	$269,047,742	-5%	-4%
Massachusetts**	72,501	-28%	-19,937	$9,732	-$194,026,884	-15%	-11,074	-$107,772,168	$700,047,987	-6%	-3%
Michigan**	44,731	-9%	-3,849	$5,460	-$21,015,540	-7%	-3,033	-$16,560,180	$242,316,487	-2%	-1%
Minnesota**	29,605	-24%	-6,993	$7,284	-$50,937,012	-14%	-4,267	-$31,080,828	$213,952,180	-5%	-3%
Mississippi**	17,133	-4%	-637	$4,620	-$2,942,940	-9%	-1,489	-$6,879,180	$78,533,889	-1%	-2%
Missouri**	41,014	-22%	-8,819	$4,728	-$41,696,232	-16%	-6,334	-$29,947,152	$192,393,905	-4%	-3%
Montana**	5,872	1%	27	$2,448	$66,096	1%	79	$193,392	$14,261,959	0%	0%
Nebraska**	11,494	-5%	-520	$3,528	-$1,834,560	-9%	-998	-$3,520,944	$40,232,913	-1%	-2%
Nevada**	11,671	-9%	-1,004	$6,840	-$6,867,360	-5%	-588	-$4,021,920	$79,203,776	-2%	-1%
New Hampshire**	9,178	-14%	-1,249	$6,312	-$7,883,688	-2%	-158	-$997,296	$57,477,353	-3%	0%
New Jersey**	65,860	-8%	-5,203	$7,992	-$41,582,376	-1%	-322	-$2,573,424	$522,226,512	-2%	0%
New Mexico**	13,634	-1%	-144	$5,556	-$800,064	-4%	-555	-$3,083,580	$75,156,620	0%	-1%
New York**	200,988	-6%	-12,347	$7,008	-$86,527,776	0%	-20	-$140,160	$1,397,481,077	-1%	0%

States' Projected Shortfall Under HANF Over the Next Five Years

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North Carolina**	54,250	-8%	-4,301	$4,452	-$19,148,052	-11%	-5,957	-$26,520,564	$239,627,475	-2%	-2%
North Dakota**	7,614	-1%	-37	$3,828	-$141,636	2%	113	$432,564	$28,917,884	0%	0%
Ohio**	84,750	-14%	-11,663	$5,712	-$66,619,056	-11%	-9,415	-$53,778,480	$480,296,719	-3%	-2%
Oklahoma**	23,339	-13%	-3,056	$5,352	-$16,355,712	-16%	-3,784	-$20,251,968	$123,931,031	-3%	-3%
Oregon**	31,525	-8%	-2,486	$5,868	-$14,587,848	-6%	-1,788	-$10,491,984	$183,538,389	-2%	-1%
Pennsylvania**	80,301	-7%	-5,861	$7,008	-$41,073,888	-6%	-5,112	-$35,824,896	$558,337,453	-1%	-1%
Puerto Rico**	30,914			$5,940	$0			$0	$182,189,507	0%	0%
Rhode Island**	9,345	14%	1,343	$5,856	$7,864,608	12%	1,092	$6,394,752	$54,295,281	3%	2%
South Carolina**	23,907	-1%	-324	$5,124	-$1,660,176	-5%	-1,137	-$5,825,988	$121,539,072	0%	-1%
South Dakota**	5,827	-2%	-136	$3,144	-$427,584	-1%	-76	-$238,944	$18,176,459	0%	0%
Tennessee**	30,139	-4%	-1,038	$5,544	-$5,754,672	-7%	-2,047	-$11,348,568	$165,780,626	-1%	-1%
Texas**	140,165	-11%	-15,846	$6,924	-$109,717,704	-6%	-7,705	-$53,349,420	$962,893,721	-2%	-1%
Utah**	10,673	-22%	-2,388	$5,412	-$12,923,856	-21%	-2,181	-$11,803,572	$57,309,420	-5%	-4%
Vermont**	6,098	-5%	-318	$5,760	-$1,831,680	-7%	-421	-$2,424,960	$34,849,104	-1%	-1%
Virgin Islands**	1,032			$5,976	$0			$0	$6,118,881	0%	0%
Virginia**	44,386	-20%	-8,665	$5,472	-$47,414,880	-18%	-8,058	-$44,093,376	$240,976,011	-4%	-4%
Washington**	40,668	-12%	-4,729	$7,512	-$35,524,248	-1%	-221	-$1,660,152	$303,102,912	-2%	0%
West Virginia**	14,954	-2%	-217	$3,888	-$843,696	-4%	-548	-$2,130,624	$57,685,325	0%	-1%
Wisconsin**	28,001	0%	-23	$4,356	-$100,188	0%	123	$535,788	$121,016,093	0%	0%
Wyoming**	2,850	1%	20	$4,596	$91,920	1%	37	$170,052	$12,083,914	0%	0%
Total	2,077,336	-13%	-258,841		-$1,884,930,744	-8%	-162,800	-$1,117,214,088	$13,592,549,559	-3%	-2%
**PIC											

Attachment - B

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May 29, 2003

The Honorable Mel Martinez
Secretary
Department of Housing and Urban Development
451 Seventh Street, Southwest, Room 10000
Washington, DC 20410

Dear Mr. Secretary:

On behalf of the National Association of Housing and Redevelopment Officials (NAHRO) I would like to offer what I believe are more appropriate changes to the Housing Choice Voucher (HCV) program than the Housing Assistance for Needy Families (HANF) initiative.

The HCV program is a highly successful program, serving nearly 2 million families nationwide. The congressionally-chartered Millennial Housing Commission reported the program should continue to be a "linchpin" of national housing policy and is "flexible, cost-effective and successful." Bipartisan reforms enacted in 1998's Quality Housing and Work Responsibility Act (QHWRA) streamlined the program and set the stage for improvements in voucher utilization, which Assistant Secretary Liu predicted will reach 96 percent in 2004. Congress created a more efficient funding system in FY 2003 with accurately and timely information that will meet the goals of serving all families authorized for vouchers while reducing the recapture of unused budget authority. We believe HUD should move forward and build on the success of the current program.

NAHRO believes HUD has demonstrated the capacity to successfully manage the Section 8 HCV program. HUD already is authorized to take steps to meet its stated goals of streamlining operations and contributing to further increases in utilization without further legislative action. NAHRO believes HUD should move forward with program improvements that could be taken immediately including:

Complete the Streamlined Project-based Voucher Rule

The Section 8 project-based assistance program allows Local Housing Agencies (LHAs) to attach up to 20 percent of their voucher program funds to particular buildings. Such "project-basing" of vouchers has proved effective in promoting new construction or substantial rehabilitation of rental housing, or in simply securing landlord participation by committing a set number of voucher units to an existing property. Under the program, LHAs can combine project-based vouchers with Low Income Housing Tax Credits, HOME funds, or other sources to further expand development, asset management and revenue diversification opportunities.

HUD issued initial guidance in January 2000 on the Section 8 project-based voucher assistance program. The initial guidance presents a number of unnecessary difficulties, however. HUD demonstrated willingness to improve and streamline the program during a roundtable stakeholder meeting in June 2001. Yet, HUD still has not issued an interim rule on this program years after the law that created it was enacted. The Section 8 project-based assistance program, if properly streamlined, holds great promise to serve special populations (i.e. non-elderly disabled households), deconcentrate neighborhoods, improve utilization rates, and increase affordable housing development.

The Honorable Mel Martinez
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Accurately React to Changing Market Conditions

Congress has provided HUD with additional funds to increase its Random Digit Dialing (RDD) surveys in an effort to more accurately gauge changing rental markets. HUD used these funds to good effect, performing RDD surveys, and as a result, increased the accuracy of Fair Market Rents (FMRs) in a number of Metropolitan Areas including Boston and Los Angeles. With access to existing rental market data, HUD can approve LHAs' requests for exception payment standards above 110 percent of the FMR within a month. HUD has an existing structure of regional economists equipped with data and market knowledge necessary to make these judgements. Access to timely information will only increase as impending federal data sources, including the 2000 Census and American Community Survey, come on line. HUD has the combination of data sources and experience to streamline this process.

Timely Reallocation of Unused Vouchers

In July 2002, HUD posted a request for LHAs (at or above 97 percent voucher lease-up or budget utilization rates) to apply for a relatively small number of reallocated vouchers that went chronically underutilized. HUD stopped the process and did not reissue the vouchers after finding they had made an administrative error. Since then, HUD officials told NAHRO they plan to reallocate unused vouchers this summer. If last year was an indication, there may be few unused vouchers to reallocate. However, NAHRO believes this structure is an important tool in maintaining utilization. HUD should move forward with reallocation and notify Congress and stakeholders of its progress, in light of its administrative error and delay.

Complete Small Agency Deregulation

On August 14, 2002, HUD issued a proposed rule to deregulate small agencies. The department reduced the usual 60-day comment period to just 30 days in an effort to put an effective rule in place at the beginning of Fiscal Year 2003. The goal was to alleviate some administrative burdens as soon as possible, thus better enabling small LHAs to focus on their core mission of providing decent, safe, and affordable housing. Unfortunately, HUD has not yet issued an interim or final rule to effect positive change.

Facilitate the Use of QHWRA's Consortium Provision

The consortium statute (Section 13(a)(2)(B) of the U.S. Housing Act allows LHAs to administer a multitude of programs in consortium with one another. Such joint administration can include Housing Choice Voucher programs. While this statutory provision has been implemented in regulation, the present structure of the PIC system and the range of programs and operational elements within each program, such as reporting requirements and draw-down procedures, make interaction between HUD and consortia unnecessarily difficult. For example, HUD's separate approval and requisition processes should be streamlined to accommodate consortia. Another positive step could be the approval by the Department of standardized agreements for consortia, which are developed in cooperation with NAHRO and other industry groups. While a good many agencies have formed consortia, more could do so if efforts were made by the Department to facilitate this process administratively.

Issue Voucher Lease-up and Budget Utilization Study

In 2002, the Department commissioned a comprehensive voucher utilization study to better understand reasons for the differences among LHAs in voucher utilization. The study found utilization rates were increasing rapidly during calendar years 2001 and 2002. It would assist Congress in understanding how rental housing market conditions (i.e. vacancy rates, etc.) affect voucher lease-up and budget utilization rates. HUD claims that HANF will improve national utilization rates, yet does not appear to be using the best available data to inform its decision-making. HUD should release the report to Congress so this critical information can inform any public debate on the voucher program.

The Honorable Mel Martinez
May 29, 2003
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In its five-year strategic plan, one of HUD's five main objectives is to lead housing and urban research and policy development nationwide. In the past, the Department has relied on program evaluations to determine effective uses of its resources and learn why programs work or fail. Evaluation results are used to improve the Department's strategies, programs and policies. NAHRO believes that wholesale changes to the program that serves the greatest number of families without thorough research on the efficacy of its proposal would not be effective or efficient use of Department resources.

Building on Success

QHWRA is a major piece of housing legislation intended to consolidate multiple programs, streamline program requirements and deregulate LHAs that perform well. It was designed to give them the maximum feasible authority, discretion and control with appropriate accountability to residents, localities and the general public. QHWRA brought welcome changes and new flexibility to the Section 8 voucher program, including more flexibility in rent setting, better lease terms for landlords, local preferences for admission and more discretion in tenant selection. In 1998, Congress passed QHWRA with bipartisan support. Among several congressional objectives of QHWRA was that the Section 8 Housing Choice Voucher program work more like the private market. The new flexibility offered by QHWRA has enabled LHAs to maintain effective voucher programs despite significant program growth and tight rental markets.

We believe that HUD should build on the success of bipartisan actions such as QHWRA reforms and the FY 2003 agreement creating a more efficient funding system reducing recaptures of unused budget authority. HUD can accomplish its stated objectives by fully implementing passed laws such as the one that created the Section 8 Project-Based Voucher program, as well as promulgating interim rules on small agency deregulation and moving forward with established rules.

Thank you for your time and I look forward to discussing this matter with you in more detail. Please feel free to contact me at 202-289-3500 ext. 225, or Julio Barreto, Director of Legislation, Program Development and Media, at ext. 231, or at jbarreto@nahro.org.

Sincerely,

Saul N. Ramirez, Jr.
Executive Director

cc: Senate Appropriations Committee
Senate Banking, Housing and Urban Affairs Committee
House Appropriations Committee
House Financial Services Committee

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Attachment C - Benefits of Local Administration of the HCV Program

1. In securing voucher funding, LHAs contribute an extremely valuable affordable housing resource to the locality. Vouchers are a critical component of affordable housing in every state and region. Because LHAs often provide a wide range of housing services, they can administer the voucher program cost effectively.

2. The community benefits from a voucher program that is locally based and responsive to the needs and priorities of the local citizenry. As public institutions, LHAs are open and accountable to the public. With governing boards typically appointed by elected local officials, LHAs are subject to democratic principles of governance.

3. LHAs are recognizable institutions. The community looks to the housing authority for housing services and knows where to turn to for assistance. Since housing authorities also own and operate public housing, voucher applicants can also be placed on the waiting list for public housing, increasing the chance of receiving housing assistance in a timely manner.

4. Membership in the local community allows LHAs to develop strong relationships with local property owners and managers where they have a detailed knowledge of local rental markets and sub markets. And having worked with landlords for so long, LHAs can administer housing quality standards effectively - encouraging them to improve housing quality and to participate and remain in the program.

5. Close ties to local government can give LHAs favorable consideration in the zoning and placement of affordable units to expand opportunities for the voucher population.

6. Nearly all LHAs have spent years developing strong partnerships with social service providers who furnish voucher families with a wide range of support services. They have close working relationships with local providers such as food banks, emergency shelter programs, housing search agencies, renters organizations, credit unions, credit counseling services, educational and instructional programs - such as those for displaced workers, or women entering the workforce, and English as a Second Language. One of the misconceptions of the HANF proposal is that it can be used to work with the Temporary Assistance for Needy Families (TANF). We already do that. In Livonia,

7. LHA resources can be effective in leveraging other public and nonprofit services for recipients of housing, including public safety and transportation systems.

8. The structure and longevity of LHAs allow specialized program staff to work with individual families over many years, if necessary, to encourage them toward self-sufficiency and independence. Similarly, housing authorities are best suited to manage the Section 8 homeownership program, which favors long-term relationships between the new homeowners and the administering agency.

9. Local communities understand and know what their community needs are in the areas of job training, housing and economic development. Local elected leaders and Local Housing Agency staff live there, work there, and spend their free time there. Involving those closest to the problems in designing solutions to those problems is also important. It would not make sense for decisions regarding the immediate needs of their local communities to be handled out of-town - by the State.

10. Finally, LHAs have a long history of managing federal housing programs, including over thirty years of administering Section 8 programs. LHAs are well acquainted with HUD, able to interpret and adapt to regulatory changes, and equipped with the staff and material resources to implement and monitor the expanding voucher program. In many ways, LHAs are the best organizations to administer the Housing Choice Voucher Program.

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NAHRO DirectNews: Section 8

Attachment D - NAHRO's HANF Admin. Fee Study: Average Loss of 13 percent from State Housing Agencies

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May 28, 2003 - NAHRO is continuing its analysis of HUD's Housing Assistance for Needy Families (HANF) proposal, which would block grant vouchers to the states. The association's new study estimates HANF would reduce administrative fees by 13 percent ($12.9 million) for states and territories handling the Section 8 tenant-based Housing Choice Voucher (HCV) program, compared with current fees

The HANF proposal would cap administrative fees at no more than 10 percent of annual budget authority. NAHRO found the fee cap seems to disproportionately harm state housing agencies working in multiple, non-metropolitan areas or with low housing costs. Many states do not currently administer the Section 8 tenant-based program. Of the states that manage the tenant-based program, NAHRO studied the 29 states and three territories with sufficient data in HUD's PIC system to complete the administrative fee study.

States and territories currently administer 10 – 14 percent of the nation's authorized vouchers. Financial losses are likely to grow dramatically if states assume administration of the remaining 86 – 90 percent of units under HANF. Such losses would undermine states' ability to adequately serve low-income households, whether they administered the program directly or subcontracted to local entities.

HANF's adverse impact on state housing agencies varies widely. Arizona's state housing agency faces a reduction of approximately $6,645 while New York's state housing agency stands to lose over $4 million annually. South Carolina's state housing agency would experience a 1 percent cut while Illinois' state housing agency would be cut by 46 percent. Delaware, Massachusetts and the Virgin Islands face no adverse effects.

States with largely metropolitan areas would not be severely impacted. For example, Massachusetts and New Jersey would see either 1 percent or zero reduction in administrative fees. Both states are made up of mostly metropolitan FMR areas, which tend to be priced higher than non-metropolitan areas. Compared with other states, Massachusetts has the highest per unit costs and New Jersey is ranked fifth. Current administrative fees are also based largely on metropolitan areas. As a result, both Massachusetts and New Jersey's HCV administrative fees are already at or below the 10 percent cap proposed under HANF.

Despite proposed administrative fee reductions, HANF would require states to maintain housing quality standards, ensure reasonable rents, and track individual income and employment information. States subcontracting with local agencies or even operating local offices—which they must do to cover large geographic areas—must manage administrative fees accordingly. At the same time, states will assume oversight and information management responsibilities, many of which are now conducted by HUD. The costs of this transition could be substantial.

Examination of the HANF proposal's provisions on funding for Housing Assistance Payments or administrative fees does not reveal an encouraging picture – either for local housing agencies or for the state entities that would ultimately administer the block-granted voucher program. The HANF proposal would transfer administration of the voucher to the states under the guise of increased flexibility. NAHRO believes that both state and local housing agencies are better off under the existing HCV program than they would be under the HANF proposal.

The results of NAHRO's study can be found for each state housing agency at /members/news/2003/may/HANF.pdf

NAHRO's research methodology for this study can be found at /members/news/2003/may/28_s8.cfm

NAHRO staff will share the results of its study with key members of Congress, Governors and affected agencies. NAHRO members are encouraged to use this information with local and state elected officials. NAHRO members are encouraged to attend congressional members' town meetings when they are back in their home districts for the Memorial Day District Work Period from May 26 – 30. In the coming days and weeks, NAHRO will provide ongoing analysis, information, and advocacy tools regarding the HANF proposal.

Questions and comments about this study should be directed to Housing Policy Analyst Jonathan Zimmerman at jzimmerman@nahro.org, 1-877-866-2476 ext. 238 or Research / Policy Analyst, Nyema Guannu, at nguannu@nahro.org or ext. 234.

NAHRO's Estimated Administrative Fee Redctions Under HANF, By State Housing Agency

State Housing Agency	HANF's Annual Admin Fee Reduction	% Admin Fee Reduction under HANF	HANF's Monthly Admin Fee Reduction Per Unit
AK	$491,442	16%	$10.04
AZ	$6,645	22%	$9.39
CA	$97,312	22%	$11.22
CO - Agency A	$132,273	10%	$4.75
CO - Agency B	$624,966	34%	$17.05
CT	$444,177	11%	$6.68
DE	N/A	N/A	N/A
GA	$445,946	6%	$2.34
GQ	$247,172	11%	$8.19
ID	$406,986	25%	$10.78
IL	$92,161	48%	$19.69
IN	$366,311	17%	$6.93
KY	$187,617	10%	$3.39
MA	N/A	N/A	N/A
MD	$263,624	22%	$9.88
ME	$324,654	15%	$6.93
MI	$888,336	9%	$3.90
MT	$477,542	24%	$10.93
NC	$151,885	33%	$13.52
NH	$477,306	21%	$12.36
NJ	$197,349	1%	$0.90
NV	$333,185	30%	$8.63
NY	$4,097,686	22%	$11.40
OK	$155,255	4%	$1.39
PR - Agency A	$399,624	9%	$4.00
PR - Agency B	$55,304	9%	$4.14
RI	$216,940	20%	$13.20
SC	$7,532	1%	$0.25
TN	$399,254	14%	$5.84
TX	$104,402	10%	$4.71
VA	$83,538	2%	$0.79
VQ	N/A	N/A	N/A
VT	$616,508	29%	$16.30
WI	$206,660	32%	$13.94
Total HANF Admin. Fee Reduction	12,792,934		

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NAHRO News: Section 8
Attachment D - Explanation of NAHRO's HANF Administrative Fee Study

NAHRO estimated the difference between each agency's maximum administrative fees in FY 2002 under the existing Section 8 HCV program and the maximum administrative fees each agency would have received under HANF, if it had been enacted at that time.

Based on NAHRO's analysis of HUDCAPS data for each agency in FY 2002, most state housing agencies' maximum administrative fees under the Section 8 HCV program in FY 2002 would be significantly reduced under HANF - a loss that could otherwise provide services to low-income households in the state. States currently administer just 10 – 14 percent of vouchers. If states assume administration of all vouchers, the corresponding losses would be greater. By extension, the loss of administrative fees for all vouchers in the state would be even greater.

Admittedly, each agency has access to much more specific information about the geographic distribution of voucher-assisted households within the agency's FMR service areas, an important component of determining administrative fees. NAHRO's study is not intended to pinpoint an exact administrative fee amount for each agency, but rather to help provide an important framework by which states can more accurately gauge the financial impact on their state agency's administrative fees under HANF versus the current program.

To determine the maximum administrative fees in FY 2002 for each agency under the Section 8 Housing Choice Voucher program, NAHRO used HUD's FY 2002 Section 8 Administrative fee schedule (published April 15, 2002) for the Fair Market Rent Areas within each agency's service area.

Section 8 HCV on-going administrative fees were separated by metropolitan and non-metropolitan areas, and by Column A (first 600 units) and Column B (remainder of units), and averages were applied.

NAHRO used the total number of authorized vouchers in each agency's Annual Contributions Contract with HUD, as reported in HUD's PIC system. To estimate the geographic distribution of leased voucher holders within each agency's service area, NAHRO applied the proportional split amongst voucher-assisted households between metropolitan (82.19 percent) and non-metropolitan (17.81 percent) that HUD found in its study entitled, "Housing Choice Voucher Location Patterns" (January 2003), to the number of each agency's authorized vouchers. HUD's recent study found out of the 1,462106 voucher-assisted households studied, 1,201,756 (82.19 percent) lived in metropolitan areas, and 260,350 (17.81 percent) voucher-assisted households lived in non-metropolitan areas. Unfortunately, HUD's study did not provide a regional breakdown of the nation's voucher-assisted households, in its metropolitan versus non-metropolitan study.

To determine the monthly Section 8 HCV administrative fees, NAHRO multiplied the estimated number of metropolitan and non-metropolitan vouchers with the average administrative fee for Column A and Column B (if applicable) in HUD's FY 2002 Section 8 administrative fee schedule, within each agency's service area. To determine the annual Section 8 HCV administrative fee, we multiplied the monthly amount by twelve.

To determine what the administrative fee would have been under HANF, had it been enacted at that time, NAHRO multiplied each agency's FY 2002 authorized funding level as reported in HUD's PIC system by 10 percent. If for some reason, an agency's authorized funding level in FY 2002 was for less than 100 percent of their authorized units, than their HANF fee should be adjusted to reflect a 10 percent cap of that amount.

NAHRO subtracted what each agency's administrative fees would have been under HANF from their annual Section 8 HCV administrative fees to determine the amount of the fee reduction. To determine the average monthly fee per unit both under HCV and the HANF proposal, NAHRO divided each agency's annual administrative fee by their number of authorized vouchers, divided by 12 (months).

NAHRO's estimates of the maximum earned administrative fees under HCV were intended to be conservative. NAHRO used the reduced administrative fee rate from Column B, for the combined number of units within either metropolitan or non-metropolitan areas exceeding 600 units, rather than on an FMR by FMR basis at the admin. fee rate under Column A. Second, some states operating tenant-based HCV program in multiple non-metropolitan areas have received higher administrative fees than the ones published by HUD. In these instances, the actual administrative fee reductions under HANF would be greater.

Administrative costs are not a function of the amount of a housing assistance payment. Program administration costs are a function of the various costs of doing business at a particular agency, including labor costs, utilities, and insurance. The size of the jurisdiction covered by each agency and the geographic location of tenant-based voucher households also affects the cost of administration. The amount of subsidy is a function of the overall income of the population served, which is influenced by regional economic conditions and the overall rental costs in each jurisdiction. Based on the results of this analysis, it seems that when factoring in this cap and the administrative costs that the state will incur under HANF, there will not be funding left to properly operate the program.

The administrative fees payable under HANF will be scaled down just when state-level entities would actually need greater resources for capacity building to assume oversight and information management responsibilities from HUD, and/or subcontracting program administration for local areas.

For questions or more information, contact Policy Analyst Jonathan Zimmerman, jzimmerman@nahro.org, or call 1-877-866-2476, ext. 238.

H. R. 1841-Housing Assistance for Needy Families Act

Testimony of
Kevin Marchman, Executive Director of the National Organization of African Americans in Housing (NOAAH)
before
The Subcommittee on Housing and Community Opportunity
2128 Rayburn HOB
June 10, 2003
10 am

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Chairman Ney, ranking member Waters, members of the subcommittee, my name is Kevin Marchman, and I am the executive director of the National Organization of African Americans in Housing (NOAAH). I want to thank you for the opportunity to comment on HR 184—The Housing Assistance for Needy Families Act.

NOAAH is a champion and advocate of affordable housing programs, policies and opportunities for people of color, indeed all low-income and special needs citizens. NOAAH's membership is a unique combination of public housing agencies, including executive staff, housing professionals, consultants, contractors, industry trade groups, residents and their organizations.

As a former public housing resident, public housing executive director, housing authority board chairman and HUD assistant secretary, I am especially proud to be part of an organization that has the diversity and the experience to look at issues, programs and legislative initiatives from many perspectives. And although this hearing is specifically about NOAAH's views on HR 1841, I would like members to be aware that NOAAH's advocacy extends beyond the issues highlighted today and includes initiatives and programs targeting environmental and health issues of those living in affordable housing, specifically lead, mold and pests; expanded homeownership for minorities; additional economic development and self-sufficiency programs for the low income; fair housing, especially increased penalties for predatory lending; and the aggressive disposition of the FHA portfolio. And while our members often find themselves on competing sides of the same issues, all are committed to expanding housing opportunities for African Americans and other disenfranchised minorities.

Before I begin my specific comments about the Administration's proposal to block grant to the states the housing voucher program or Section 8, let me say first that the views I express here today are my own and do not necessarily reflect those of any NOAAH member, director or supporter.

It seems premature to me for HUD to propose such a radical restructuring of a program that for the most part works pretty well. The concern with the recapture of Section 8 appropriated funds is not a new one; and it is a legitimate concern. The very recent 2003 appropriation provides for a "real time" funding system that allows agencies to fund only the number of vouchers actually in use. In fact, in most markets, underutilization of vouchers occurs when market rents outstrip HUD's fair market payment standards. When the payment standards are increased, voucher holders can use their vouchers. It seems to me that the real challenge for HUD is to come up with a system that allows for an efficient strategy for reallocating unused vouchers. At a minimum, I believe we need to assess the impact

of the 2003 reforms before we undertake any major restructuring of a program that while not perfect has been honed and tuned over the years to meet the needs of over two million households.

It is true that over the years the Housing Choice Voucher Program has grown in both complexity and cost. There are any number of reasons for this reality including the economy, the growing need for targeted housing assistance and an increasingly diverse client base. Thus HUD, quite rightly, has tried to implement real world rules and guidelines to assist the "real" program administrators who manage the approximately 2,600 programs.

According to a recent report from the National Housing Conference, the bulk of national housing expenditures or roughly $120 billion annually is in the form of mortgage interest deductions, real estate tax deductions, capital gains exclusions—you get the point. These housing tax expenditures have very little impact on the needs of the very low, low and even moderate income citizens that NOAAH supported programs and services are designed to help. Direct spending on those housing assistance and community development programs, such as HOPE VI, Section 8 and the now defunct drug elimination program is only about $30 billion annually. In other words, the federal government should be increasing funding for proven programs, making changes as necessary to improve effectiveness—not wholesale restructuring without careful consideration of the consequences.

I am also concerned that the creation of yet another layer of administrative oversight—including officials, additional rules, and reporting guidelines—will not simplify the program but will likely increase costs and the burden of service delivery on already cash-strapped state governments.

And if one goal of H.R. 1841 is to make the program more localized, I question how that can be any better accomplished by the state than by the local housing authority. As a former HUD assistant secretary who oversaw this program just five years ago, and as a former public housing executive director of several housing agencies, both large and small, I speak from *experience* when I say that we can better ensure that our national goals are achieved if the program is administered by HUD. Where necessary the federal government should be flexible, however, to allow for regional, state and local issues.

Lastly, we should be working with the administration to strengthen the current housing assistance program by implementing strategies that both reduce the time and paperwork involved and simultaneously increase responsiveness to local needs and markets. We need data collection and analytical tools that we can be confident provide us with accurate program costs and results. Only then can we gage such things as voucher assistance effectiveness and its impact on increasing homeownership, for example.

As the housing advocate for all people of color, our members are assisting NOAAH staff with identifying, creating and developing programs to increase affordable housing stock in this nation. And by documenting best practices, using technology to improve the quality of life and expanding the availability of affordable housing options for the low and moderate income, and especially our special needs citizens, NOAAH is committed to nonpartisan advocacy for safe, decent and affordable housing policies and programs.

Again, thank you for this opportunity to share my perspective.

Testimony of Neil Molloy
Executive Director, Housing Authority of St. Louis County, Missouri
on behalf of the
Public Housing Authorities Directors Association (PHADA)
Before the U.S. House of Representatives
Subcommittee on Housing and Community Opportunity
Honorable Bob Ney, Chairman
June 10, 2003

The Public Housing Authorities Directors Association (PHADA) represents over 1,900 men and women who serve as chief executives of public housing authorities (HAs). HAs are independent state-chartered political subdivisions with locally appointed boards, and act to support housing quality and affordability in their communities. They serve as the primary administrators and deliverers of low-income public housing and of Section 8 Housing Choice Vouchers (HCVs) within their jurisdictions, and some have performed these services since the Great Depression. HAs serve as the customer interface for a large share of federal housing assistance and they act as significant partners with the federal government in implementing federal housing policies.

PHADA is grateful for the opportunity to offer testimony concerning President Bush's Housing Assistance for Needy Families (HANF) proposal to the House Financial Services Committee's Subcommittee on Housing and Community Opportunity. Chairman Ney graciously sponsored H.R. 1841 at the administration's request in order to introduce these proposals for public discussion, and PHADA is eager to participate in that debate. With deference to Chairman Ney, PHADA will refer to HANF, embodied in H.R. 1841, as HUD's proposal.

PHADA remains unalterably opposed to HUD's fundamental recommendation that the Congress restructure the HCV program into a block grant to the states. This deconstruction of one of the best examples of successful housing assistance delivery in HUD's inventory of programs is at best ill advised and at worst a cynical attempt to withdraw from the historic federal commitment to encourage housing quality and support housing affordability.

HUD's proposal is based on a set of flawed justifications that include:

- Superficial, misleading similarities between the HCV Program and TANF,
- Misunderstood differences in the welfare and housing assistance delivery systems,
- Devolution to the wrong level of government,
- Disregard for Congressional solutions for the recapture problem, and
- Unsupported claims of current inefficiencies and future efficiencies.

Based on these faulty assumptions, HUD's proposal would disrupt current program operations in favor of an alternative that adds little value to the HCV program and raises the specter of chaotic, pointless change.

How firm the foundation?

HUD's justifications for this proposal have three sources, ideological, policy and administrative.

Ideological sources

The TANF connection

HUD's practice in naming this proposal reflects its belief that the HCV Program simply represents a federal income support effort that parallels the old Aid to Families with Dependent Children (AFDC) Program, reformed as Temporary Assistance for Needy Families (TANF) under the previous administration. PHADA disagrees with this characterization of the HCV Program. Although it contains elements of income support, the program's impacts reach far beyond simply providing the wherewithal for impoverished families to pay rents they can afford. The program:

- Helps maintain rental housing quality in the national housing stock,
- Helps constrain rental housing cost inflation,
- Offers lease protections for poor families not always otherwise available,
- Contributes to socio-economic integration of rental housing,
- Offers poor families a degree of mobility not previously available to them, and
- Contributes to the capitalization of rental and owner occupied housing that becomes available to low- and moderate income families.

These purposes and impacts reach far beyond the purposes and impacts envisioned for the AFDC Program or its TANF successor.

Institutional question

In addition, the delivery network for the HCV Program is radically different from the set of institutions that deliver welfare benefits to poor families. The AFDC Program already delivered cash benefits through existing state organizations under two models of service delivery. In some states a department of state government delivered AFDC (now TANF) benefits through local offices of the state department. One administrative entity had complete authority, control and responsibility for program administration. In other states, a department of state government delivered benefits through a series of departments of local (city or county) government. In both cases, the fundamental federal relationship was and had always been with a department of state government. In addition, every institution involved in delivering welfare benefits was a department of either state or local government.

None of these characteristics pertain to the delivery network for the HCV Program. In very few cases (e.g. Alaska, District of Columbia, Guam, Puerto Rico, U.S. Virgin Islands) does HUD contract with a department of state government for provision of all HCV benefits within the state. In a minority of states (14), no such state department exists. In the majority of states (34), a state department exists with responsibility for <u>limited</u> HCV service delivery, often to areas not otherwise served by a HA. In no case do existing state departments have the administrative capacity or the network of service delivery sites or customer contact points that are needed to administer a statewide HCV program.

The existing customer contact points for the HCV program (HAs) are institutions independent of both state and local government. They are versions of special districts, lacking the power to tax and spanning the boundary between the public and the private sector. Unlike the bureaucratic, top-down models for delivery of welfare benefits in which there are clear chains of command, HCV benefits are delivered to customers through a much more complex web of mutually independent institutions collaborating to accomplish a common policy goal. One advantage to this kind of delivery network is its capacity to respond to multiple, often competing, demands from varying levels of government and from diverse sets of interests. HAs are responsive to demands and pressures arising from communities in ways states cannot be.

Federalism and the states

The administration may be ideologically interested in strengthening the roles of the several states and acting more in partnership with than in patronage over the states. This laudable goal, respecting mutual sovereignties and divergent interests, promises to work well in reforming a policy delivery system such as welfare where an institutional and administrative network is in place to carry out the transition. In the case of HCV, the administration's goal will require the construction of such an institutional and administrative network, and then will require an orderly transition from the current system to a state block grant delivery approach. PHADA is convinced that parallels between the AFDC and HCV programs are more apparent than real, and that transitioning from the current delivery network to one each state will create from whole cloth will be destructively chaotic for a program all admit is largely successful in its current form.

Policy sources

Voucher holders and welfare

HUD's policy sources for its HANF proposal are described in H.R. 1841 and are threefold. First, HUD argues for a tight linkage between HCV housing assistance and the self sufficiency efforts embedded in TANF. Although ongoing self sufficiency efforts HAs have undertaken often made counseling and other supportive services available to eligible HCV users, only 20 percent of HCV holders receive TANF financial support, and only 13 percent rely primarily on TANF for their income. Approximately 34 percent of HCV users are elderly and/or disabled households for whom self sufficiency concerns are inappropriate. More than half of HCV users rely for a significant portion of their incomes on earnings. These households are already well on their way to achieving self sufficiency and are generally ineligible for TANF. Tightly linking HCV assistance and TANF will only be of benefit to a small minority of voucher holders. HUD's argument for closely linking the programs relies on a common misconception that most users of assisted housing are welfare recipients. That is a false premise.

The disappearing recapture problem

Second, HUD argues that fund recaptures have prevented the HCV program from serving several hundred thousand potential HCV participants, and responsibility for these recaptures lies with current administrators. PHADA and its members have always supported efforts to improve the utilization of HCV funds and have suggested steps at various times that would help improve utilization. Utilization of HCV funds continues to rise.

Last fall, PHADA estimated that the national utilization rate exceeded 95% of allocated vouchers, a rate now confirmed by HUD. In recent testimony concerning HANF, the Department seemed to acknowledge that recapture of funds is no longer a problem. Even if it were, HUD has had tools available to it for several years that could have reallocated underutilized funds to HAs or other program sponsors who could make quick use of the funding and prevent the loss of these funds to housing assistance. HUD failed to make use of the tools available to solve this problem administratively. Finally, in its FY '03 Appropriations Bill, the Congress approved a series of statutory measures that were designed to minimize or eliminate the recapture of HCV appropriations. The conference committee report strongly encouraged program sponsors to continue working diligently to use every HCV authorized by Congress. Both Rep. Walsh and Sen. Bond have expressed their desire to wait and see if the appropriations bill's solutions to the recapture problem succeed before considering new alternatives. HUD's HANF proposal purports to solve a policy problem that:

1. HAs were already in the process of solving themselves,
2. HUD had tools to solve that the Department refused to use, and
3. Congress had solved (at least in part) through provision in FY '03 appropriations.

Deregulation: just do it

Third, HUD claims that the HCV program is, "overly prescriptive and difficult to administer, with hundreds of pages of regulations and guidance," that it is too complex, slow to respond to local market forces, and that the, "multiplicity of Federal directives," have prevented several hundred thousand families from being served. PHADA certainly agrees with HUD on these points. The problem is that block granting the HCV program to the states is neither necessary nor sufficient for solving these difficulties. The solution to this concern is much more obvious. HUD must deregulate its program, regardless of the managing administrative entity. The problem is that HUD has demonstrated an historical distaste for relinquishing the micro-managerial control exercised through this overly prescriptive, difficult to administer, multiplicity of federal directives. If HUD wishes to deregulate in the interest of HCV program effectiveness, the Department should just do it without making radical changes to a successful service delivery infrastructure.

Administrative sources

Efficiencies and inefficiencies

HUD has argued in its FY '04 budget justifications as well as in its legislative HANF proposal that the current HCV delivery system is inefficient. In particular the Department cites two problems. First, HUD must contract with 2,600 entities as HCV program administrators, the implication being that this is too much for the Department to handle. The inefficiencies of concern to HUD here are internal to the Department and do not involve the delivery network. In addition, HUD manages a public housing program that includes at least two sources of annual funding (the Operating Fund and the Capital Fund) with 3,400 administrators, manages project-based voucher assistance through 13,000 administrators, and manages community development programs (e.g. CDBG, HOME) through states and localities that number on the order of HCV and public housing program administrators. HUD has not yet made it clear why the number of program administrators is problematic for the HCV program and not for all of the other programs for which the Department is responsible.

HUD's second claim of inefficiency involves the size of local HCV programs. More than half of the 2,600 administrators operate programs with fewer than 250 vouchers. The inefficiency implied here is that these administrators are too small to take advantage of economies of scale and so these programs are more expensive than they need to. PHADA believes HUD is wrong on three counts. First, although it is probably true that small programs cannot take advantage of economies of scale available to programs in large urban centers, it is also true that these programs aren't victims of diseconomies of scale represented by inefficiencies of administering systems that must accommodate large numbers of clients, landlords and other service delivery organizations. Second, small programs generally operate in low cost areas. Housing costs are low, salaries are low, space and equipment costs are low, and these areas generally have lower Fair Market Rents (FMRs), lower payment standards, and lower administrative fees. HUD has failed to take into account these economies of the small. Third, and most important, these smaller programs represent a significant local commitment to serving housing needs of poor households. Small localities have a demonstrated stake in their local HCV programs, but the programs could be at risk of being frozen out through state level block grants and the encouragement of regionalization. Federal allocations of HCV resources to smaller programs has helped protect the equitable distribution of tenant based housing assistance, and block granting the program to the states places the distribution at some risk.

Although HUD fails to address the question of administrator performance, in its 2002 report on SEMAP outcomes, HUD reported that only 8 percent of HCV administrators were SEMAP troubled. Although 38 percent of troubled agencies were very small, these agencies were troubled for easily remedied problems, not requiring significant investment of HUD's resources, and they consumed less than 7 percent of HUD's HCV funding resources. On the other hand, although very large agencies represented a small proportion of SEMAP-troubled agencies, very large agencies consumed over 71 percent of HUD's HCV resources, and HUD anticipated that correcting deficiencies would consume significant HUD resources and take approximately 2 years. HANF seems to amputate a body of generally effective well run agencies in the name of speculative efficiency gains, and without any protection against the kinds of administrative problems already identified and largely corrected through SEMAP.

Finally, HUD has identified the number of program sponsors as a source of program inefficiency, but has not structured its HANF proposal for efficiency improvement. Instead, the proposal seems to encourage regionalization and use of metropolitan service organizations that will receive the same per voucher administrative support as the HCV program provides today. In efficiency's name HUD will move a voucher from a small, local, presumptively inefficient administrator and award the voucher to a larger, regional presumptively efficient administrator. HUD will pay an administrative fee capped at 10 percent of budget authority to the small administrator, and HUD will pay the same administrative fee capped at 10 percent of budget authority to the regional administrator. PHADA cannot identify how this change will produce more outputs (vouchers leased) to inputs (administrative dollars), the definition of efficiency.

Foundations in the sand

HUD has built its HANF proposal on a foundation of ideology, policy and administrative efficiency, but has failed to make its case in any of these three areas. PHADA disputes the claims of administrative efficiencies in block granting, and sees little or no connection between the policy issues HUD has raised and block granting. Devolving program responsibilities to lower levels of government is laudable, but HUD has chosen the wrong level, and its approach will be chaotically disruptive to a successful program on which almost 4.5 million people depend.

Attractive features of HANF

HUD's proposal includes several suggestions for deregulation of the HCV program and devolution of responsibility for policy positions from the national level to lower levels of government. These features include:

- Reducing client recertification and inspection requirements,
- Devolving responsibility for setting payment standards, eligibility and subsidy amounts, and
- Simplifying the process for establishing participants' maximum housing costs.

PHADA believes many of these suggestions would be helpful to any institution administering the HCV program. They represent significant opportunities to devolve program responsibility and to tailor the HCV program to local needs and policy preferences. But these reforms could be implemented within the current delivery network without the chaos inherent in switching to state block granting, and many of them could be more effective if implemented at the local rather than the state level. In testimony on HANF, HUD has simply expressed an unsupported preference to use states as administering entities.

Chaos ahead

Contrary outcomes

Because of substantial institutional and policy differences between the HCV and AFDC programs PHADA is much less sanguine than HUD concerning a transition from the existing service delivery network to a state block grant approach. Not only are HUD's arguments in support of HANF without substantial merit, but PHADA believes that transitioning to HANF will produce some results exactly opposite to HUD's expectations.

Reduce 2,600 administrators to approximately 60

A centerpiece of HUD's HANF argument involves the administrative efficiencies in substantially reducing the number of program administrators. But, the proposal permits states to opt out of participation as administrators. If a state opts out of administering HANF, it is very unclear what other organizations have the authority or the interest to administer a statewide program. It is possible that HUD would have to retain contracts with all existing administrators in the affected state. PHADA doubts that an entity other than a state government could operate successfully as a state-wide administrator. For the first year of HANF, HUD would have contracts with 2,660 administrators. During the subsequent two to four transition years, that number will dwindle down to an unpredictable level between 60 and 2,660.

Locally responsive decision making

HUD argues that HANF will enable more locally responsive decision making by devolving its responsibilities to state governments. The current delivery network relies on local institutions for program administration. PHADA has difficulty understanding how the addition of another layer of decision making authority at the state level will make the program respond more quickly or effectively to local issues. Adding a layer of administrative responsibility seems to promise more complex, not simpler, decision making processes that will take more time, not less. HANF also permits the states to use other than public entities to operate local programs, and if a state opts out of administering a grant, permits HUD to do the same. How local non-public administrators could be more responsive to local needs and concerns than local HAs, governed by politically appointed boards, remains one of many HANF mysteries.

HANF administrative costs

The HANF proposal imposes a superficially reasonable limit on administrative fees chargeable to the program of 10 percent of the annual block grant. But PHADA has estimated that, if each state charges administrative costs at this ceiling, the aggregate national costs for administering HANF will rise by over $73 million. Although 34 states will lose $43 million in capacity to charge administrative fee compared to the aggregate fees currently received by program sponsors within those states, 19 states will experience an aggregate $118 million increase in that capacity. One private sector analyst has estimated the requirement to accommodate the additional layer of state administration at 4 percent of the block grants. Unfortunately, these increased administrative costs will be supported from each state's block grant amount. These increasing administrative costs will require the elimination of over 11,000 vouchers currently in use.

In testimony on the HANF proposal, Assistant Secretary Michael Liu has said that current federal costs (internal to HUD) for administering the HCV program are approximately $15 million. In order to replace federal management of the HCV program, HUD's proposal would raise chargeable administrative costs for the program by $73 million, and cost an additional $100 million for states' first year "ramping up." HUD has also testified that HANF will not result in any personnel savings to the Department, so it appears that the administration of HANF will cost an additional $173 million in FY '04 and an additional $73 million each year thereafter. To some extent, these growing administrative costs make sense since every program administrator will manage a two-track program, one track for grandfathered participants operating under the old HCV program rules and procedures through 2009, and another of track for recently admitted participants operating under the new HANF program rules and procedures established by each state.

Unexpected outcomes

The undisclosed funding formula

Both the House and the Senate statutory proposals include language concerning contingencies if future funding is inadequate. Neither proposal contains language concerning the distribution of additional resources should Congress choose to expand HANF funding. PHADA has concluded that this proposal demonstrates diminished federal commitment to support the HCV program at its current levels. The Senate version even includes a specific provision, entitled, "Inadequate funding." The opinion is bolstered by HUD's FY '04 funding request for HANF which PHADA has argued is $730 million less than necessary to fund vouchers authorized by Congress. At an average cost of $6,500 per voucher, HANF leaves over 112,000 authorized vouchers unfunded in its first year of implementation.

All of this will leave state governments holding the bag when HANF faces inadequate appropriations. Program administrators will face difficult choices among reducing subsidy amounts, reducing utilization rates, reducing maximum subsidies, increasing tenant payments, targeting participation by higher-income voucher holders, and contributing state tax revenue to the HANF program. All of these alternatives lead to reductions in the number of vouchers in use, the reduction of housing costs subsidized by vouchers, or both. Governors are already facing very difficult choices in the Medicaid program because of inadequate federal funding and highly restrictive reimbursement policies. Two certainties in the HANF proposal are that costs will increase and that block grant appropriations will not keep pace.

The transition from one program to approximately 60

With the flexibility granted to states in HANF and absent any significant underlying national program structure, HANF will likely develop into many very different programs. That has happened for Low-Income-Housing Tax Credits. The development of different programs among the states complicates HANF, however, because of the ongoing requirements for portability. Portable vouchers must be administered under program standards of the state to which HCV holders move. If the receiving state fails to absorb incoming portables, the administering state must manage vouchers that operate under widely varying program standards, hardly efficient, and an invitation to error.

The combination of different programs with portability also presents the possibility of states becoming involved in a "race to the bottom." PHADA assumes that HCV holders in states that impose highly restrictive program requirements could choose to move to states with more generous, less restrictive requirements. Restrictive states will effectively free ride on more generous states' programs, a disincentive for any but the most restrictive program standards.

The transition from HCV to HANF

One of the most troubling areas of concern with HANF is not mentioned in the proposal. If Congress enacts HANF, HUD, the states, HAs and other program administrators will face the daunting task of transferring the existing deep and broad delivery system and reporting networks from one set of players to another. The proposal does not address any elements of this transfer, but the transfer must include:

1. Recreation of the administrative infrastructure necessary for program administration.

HAs have invested vast amounts of time, energy and money in creating and maintaining a delivery network and system that:

a. Maintains 2,600 waiting lists that include millions of applicants (many HAs cease taking applications when applicants equal or exceed their authorized vouchers),
b. Manages the annual recertification of 2 million households each year,
c. Manages approximately 200,000 new lease ups and 1.8 million lease renewals, including rent comparability and utility cost analyses, each year,
d. Conducts over 2 million inspections of new housing and renewed housing at least once each year,
e. Delivers on the order of 10 million housing assistance payments checks to landlords each year,
f. Delivers an annual 1099 to every appropriate person (landlords and participants) in compliance with IRS requirements and
g. Electronically submits the lengthy 50058 data to HUD electronically at virtually every program action on every HCV holder,

among other things. The systems in place to administer the HCV program have developed incrementally over three decades, and they are hardly optimal. But they are successfully delivering housing assistance and maintaining program quality and integrity.

Information systems designers have developed several alternative information systems to accommodate the single existing HCV program. Although none are without fault, with the advent of 60 different state HANF programs their utility appears doubtful. Thus the proposal may require redesign of data systems to support HANF, and those redesigns will lack the efficiency of scale currently available to system designers with the HCV program (a single program design and a potential customer base for vendors of approximately 2,600 program mangers).

Along with the advent of 60 HANF programs, HUD may need to revise its main tenant data gathering tool, Form HUD-50058. This form gathers detailed information on every housing subsidy recipient, and is currently 15 pages long, with an additional 15 pages of instructions. HUD will face the daunting task of designing a data collection instrument capable of capturing the information required in its legislative proposal from 60 different state HANF programs. When HUD last amended Form HUD-50058, the effort took 2 years, and the Department continues to correct deficiencies in the form and data collection systems to this day.

Significant changes in program administrators will require more than a simple handoff and will put much of the program at risk for some period of time.

2. Landlords, tenants, and HANF success.

As a market-based demand side model of housing assistance, the HCV program requires an adequate population of willing housing suppliers and consumers to work

a. Landlords

1. The current program attracts landlords because it assures them they will receive part of their monthly rental payment from a reliable and stable source. HANF will undercut this reliability and stability in two ways. First, new administrators and inevitable transitional snags will interfere with the stable flow of subsidy payments. Second, HANF's uncertain multi-year funding steam will erode landlord confidence in the program over time. Landlords will opt out of HANF and become increasingly reluctant to opt in.

2. Current program administrators have spent decades establishing stable professional working relationships with landlords that range from large multi-state management corporations to mom-and-pop sole proprietorships. Changing local administrators disrespects the value of this web of relationships. Adding additional complicating administrative layers will reduce landlords' confidence in the program's responsiveness to their concerns.

3. Section 8, HCV or HANF must retain a growing pool of landlords with a stable core as a precondition for success. Landlords tend to be conservative and suspicious of federal involvement. HUD's HANF proposal fails to consider the implications of these dramatic changes for a critical element of a successful housing assistance program.

b. Tenants

1. The population of HCV holders may appear captured by their economic status (the national average annual income of voucher holders is 18.6 percent of the national median income). However, the shallower the subsidy, the more realistic program exit becomes for participants. Although HANF includes some proposals that ease the compliance burden for participants (e.g. less frequent reexamination, less frequent inspections), program uncertainties and instabilities, coupled with the inexperience of some state and local program administers will discourage continued participation by higher-income, shallow subsidy, low-cost participants. The financial health of the HCV program will benefit from retention of these low cost HCV holders, but HANF seems

to discourage participation by all but the most impoverished, highest costs HCV holders.

2. In combination with the disincentive for continued participation by low-subsidy HCV holders, the proposal includes requirements for states to continue serving the same number of households between 2004 and 2009. This requirement may drive states to recruit higher-income eligible households, raise eligibility wherever possible, and structure program designs to minimize subsidy payments to new participants in particular.

c. The combination

1. By its nature the HCV program is driven by market forces. Program administrators serve to reduce transaction costs for seller-buyer dyad of landlord and tenant. For its success, HCV or HANF requires adequate numbers of willing landlords and willing tenants who are attractive to the other party to the deal. HANF can seriously degrade the desirability to HCV holders of the pool of landlords and housing, and can seriously degrade the desirability to landlords of the pool of HCV holders. This possibility seriously and fundamentally threatens the success of this demand-side driven housing assistance program.

2. It is unlikely that the impacts of market forces on HANF would be immediate. Instead, over time, these impacts will have the impact of reducing the desirability and incomes of HANF beneficiaries and reducing the number and desirability of housing and landlords available to HANF beneficiaries. Costs will rise faster, and quality will decline.

Program integrity

One justification HUD has used to support HANF involves the significant subsidy overpayments the Department has projected for the HCV program. HUD has identified over $1 billion in subsidy overpayments in the HCV program, the GAO has identified HUD as a high risk agency as a result of improper subsidy payments, and HUD's subsidy overpayments have become a target of the President's management agenda administered through the Office of Management and Budget. In the Department's FY '04 budget proposal, corrections to some of these overpayment problems are reflected in HUD's estimations of appropriations needs.

Although HUD's "simplification" of housing cost calculation in HANF (the proposal to limit housing costs to 30% of gross income at the initiation of assistance) purports to help resolve these problems, HANF's fundamental solution to the overpayment problem is to redefine what to consider as "error." states will establish payment standards, maximum subsidy amounts, maximum housing costs and any state-specific reductions from gross income. With this block grant proposal, HUD defines any problems of error or fraud as state, rather than federal, problems. Although the department may claim to have solved the $1 billion subsidy overpayment problem through HANF, HUD will not be paying out $1 billion less in block grants to the states, nor will anyone be reassured that $1 billion will be more appropriately channeled into proper payments for eligible households. PHADA believes it may be impossible for HUD to determine or report on what sort of housing subsidy payments may be correct, in the future.

Participant mobility

The portability of existing HCV assistance has had significant impact and enormous potential to encourage socio-economic deconcentration and allow impoverished households to live in locales they believe promise better economic opportunities. HANF retains portability, but programs may differ radically, state to state. States will retain the option of absorbing portable HCV holders into their own programs or permitting an originating state to continue to manage those portable vouchers. Without absorption, each program administrator may need to manage differing rules and standards among up to 60 individual HANF programs, a daunting burden. Mobility and the multiplicity of HANF program design become particularly problematic in metropolitan urban centers on or close to state boundaries.

Portability may also stimulate a race to the bottom among states. More generous programs may draw participants from more conservative programs, representing an unacceptable burden not only to a state's HANF program but also to its other social services support infrastructure. The choices available to states to remedy this kind of problem are limited, and generally require programs either to look more and more like the most conservative programs, or to put up with this free riding.

Finally, portability has helped to discourage the kind of waiting list shopping among applicants that was very common before implementation of voucher portability. The potentially significant differences among state HANF implementations seem to reintroduce the techniques of waiting list shopping in order to find the easier lists in more generous programs. Portability may be driven by the character of state HANF implementations, rather than by socio-economic diversity or economic opportunity.

Capital asset development

HCVs and project-based vouchers have become a vital tool for developing a wide range of housing affordable to low- and moderate-income households. Some housing is targeted and marketed to HCV holders, and some housing depends for capitalization on the use of project based voucher assistance. HCVs have been used as replacement alternatives in HOPE VI projects, as protections when owners opt out of existing project based agreements, and as one method for Low Income Housing Tax Credit developments to remain affordable to lower-income households under the terms of tax credit issuance.

All of these uses depend on the stability of the revenue stream represented by HCV assistance, and the stability of the period of time over which that revenue stream will continue. The stability of both the revenue and the commitment period are called into question as a result of HANF. LIHTC and HOPE VI development partners can presently rely on an HCV program that is both stable and consistent from state to state. When HANF lets 1,000 flowers bloom, developers will be unable to continue to rely on these program stabilities.

The outcomes from HANF for capital investment in affordable housing are straightforward. First, since the revenue stream from vouchers appears riskier, the risk premium associated with vouchers will rise, debt service in connection with affordable housing development will rise, and so the housing will either require higher rents from tenants or will require deeper subsidies of housing costs. Second, and as a result of the first outcome, HCVs or project based vouchers will become a less effective tool for developing housing affordable to low- and moderating income households. Third, the uncertainties inherent in HANF will effectively transfer risk to the states that has not been faced by the federal government. The risk transfer may affect the states' willingness to participate in these developments adversely.

Feather Weight Devolution

HUD's rhetoric surrounding its HANF proposal sounds as though the Department wishes to devolve authority and responsibility for HCV assistance to state governments. However, that devolution only goes so far. HANF retains a series of requirements and restrictions that seriously limit the extent to which HANF represents real devolution reaching beyond superficial appearances.

Annual Plan and reporting requirements

HANF requires the states to include HANF administrative details in the Annual Plan that the states currently submit to HUD for other unrelated purposes. In addition, states will submit annual performance reports to HUD that detail, among other things,

1. Elderly households served,
2. Disabled households served,
3. Income information for each household (and, presumably, member)
    a. Amounts of income,
    b. Sources of income, and
    c. Changes in amounts and sources.
4. The value of housing assistance paid,
5. Administrative expenses, and
6. Neighborhood and poverty information concerning where assisted households reside.

The relationship between these performance reporting requirements and HUD's current 50058 system is unclear. These may replace HUD's 50058 system or they may be in addition to it. In any case, HUD's planning and reporting requirements do not represent a devolved system of accountability, but retain the character of HUD's current system of collecting enormous volumes of detailed information concerning every member of an assisted household at the national level.

Targeting

Despite claims to increase program responsiveness to local and state policy preferences, HUD has proposed to continue targeting this housing assistance at the federal level. Currently, the HCV program precludes admission of most families with incomes above 50 percent of the area median. HUD defines HANF eligibility, with some exceptions, at 80 percent of median income, and continues to target 75 percent of program admissions for extremely-low-income (ELI) households (those with incomes below 30 percent of median income). In order to meet other program requirements with limited funding, administrators may encourage participation by the highest-income eligible families that may be housed within the untargeted 25 percent of new program admissions. PHADA believes that raising income eligibility while retaining ELI targeting will tend to limit access to HANF for households with incomes between 30% and 50% of the median.

Grandfathering

The kind of radical restructuring advocated by HUD brings with it the difficult question of handling existing commitments. There are 2 million HCV holders with both contractual and moral commitments concerning their assistance, and there is housing that has used project-based HCVs in support of maintaining affordability. These latter commitments are contractual and may last for a number of years into the future.

HANF addresses the question of the current HCV holders by requiring states to treat these participants under current HCV rules through 2009. Thus for the first five years of HANF, each state will operate a two-track program that includes participants operating under the old HCV rules and an increasing proportion of participants operating under the states' HANF rules. HUD has historically favored this kind of multi-layered transition when it has proposed significant changes in the design of its programs, and unfortunately HUD has uniformly ignored complaints from program administrators concerning the complexities of this approach.

The complexities of managing current program participants pales in comparison with the issues that arise in connection with current project based vouchers and vouchers used in conjunction with homeownership initiatives. HUD's proposal holds existing project-based and homeownership vouchers harmless in the transition to HANF. Thus, states will be obligated to assume the administration of these arrangements for the remainder of their lifetimes, which may be up to 15 years. HUD's proposal remains murky as to details in continuing administration of these vouchers. Administration may remain with current administering entities, or it may transfer to whomever a state may select to manage the new HANF program. In either case, the state's administrative role is complex, taking on responsibility for administering agreements in which the state had no negotiating role.

The wrong answer to the wrong question

HUD's HANF proposal answers a question on no one's lips, and answers it poorly. The proposal would restructure a program that is an acknowledged success, and it endeavors to solve problems that HUD acknowledges no longer exist. PHADA believes the proposal originated as an ideologically attractive change based on superficial, uninformed resemblances between the

Housing Choice Voucher Program and other federal income support programs, such as TANF. In pursuing HUD's solution to a non-problem, HANF:

- Places a highly successful service delivery network and the policy outcomes produced by that network at serious risk, and

- Risks alienating the market participants who must be willing buyers and sellers. HCVs success depends on those buyers and sellers in order to serve as a viable means for delivering housing assistance, maintaining housing quality, and developing new affordable housing

PHADA suspects that the administration is setting the stage for reducing HUD's funding per voucher in order to limit the continuing growth of the program's costs. This alternative is designed to offer political cover for federal policy makers when they decide to constrain federal budget commitments for tenant-based vouchers. It will leave governors holding the bag when states can no longer continue assisting the 2 million households and 4.5 million people currently using HCVs to help pay their housing costs.

One consequence of HANF, whether intended or unintended, is its broad withdrawal from a federal role in housing policy development and implementation. The proposal enshrines in statute a withdrawal from Congress's historical commitment to fund all of the vouchers it authorized. This withdrawal was enacted in FY '03 appropriations, but with HANF's requirement that states continue to serve the number of HCV holders, the proposal includes this withdrawal in authorizing legislation. HUD proposes to withdraw from the consideration of questions of housing quality, housing affordability, preservation and development, and any assessment of the magnitude of need for housing assistance. The proposal certainly withdraws from the long-standing federal commitment to, "a decent home and a suitable living environment for every American family." In place of these federal roles and commitments, HANF hopes to draw the states into taking on these responsibilities without a federal commitment to financial support comparable to the Congress's historical commitments reinforced in the FY 2003 Appropriations Bill Conference Committee Report.

PHADA would be comforted if, instead of investing its political capital in HANF, HUD would spend its energies with the Congress and local program administrators on solving the real limitations of the Housing Choice Voucher Program. These include streamlining administrative processes so that the program can respond quickly to changing local market forces, deregulating to permit creative locally tailored uses of Housing Choice Vouchers, and developing data and reporting systems that can predict future funding needs accurately.

Instead, the Department has produced a solution in search of a problem. PHADA hopes that the Subcommittee on Housing and Community Opportunity makes short work of HANF so that we may all proceed to develop options that build on the successes and overcome the shortcomings of the Housing Choice Voucher Program.

Neil Molloy *7618 Forest View Drive Pasadena Park, Mo. h (314) 389-3399 o (314) 428-3200x3315*

Experience

1993 to Present	**Executive Director, Housing Authority of St. Louis County** Directs and manages the operations of the Housing Authority of St. Louis County which provides housing to almost 7,000 families. Manages the Hillsdale, Olivette and Pagedale Housing Authority and a development corporation which has constructed almost Five Hundred Units of Affordable Housing
1985 to 1993	**State Representative** Elected to General Assembly in November 1984, Chair of the Elections Committee, Member Appropriations, Ways and Means, Higher Education, Elementary and Secondary Education, Professional Registration, and Democratic Director of House Intern Program.
1986 to 1993	**Consultant** Consultant to candidates and issue campaigns at the federal, state, and local levels, managing the campaign or serving as the field director, fund-raiser, policy and issues director, debate coach, volunteer coordinator or in other capacities. Directed and planned the efforts of professional staff and volunteers in all phases of campaign activities.
1981 to 1984	**Treasurer and Trustee Village of Pasadena Park** Chief fiscal officer for the village and member of the board of trustee's was responsible for preparing the budget and monitoring the expenditures of the Village.
1971 to 1985	**Department Manager National Supermarkets** Managed various departments for a retail grocery chain.

Education

1996	Fannie Mae Foundation Fellow - Kennedy School of Government Program for Senior Local and State Officials, Harvard University
1996	University of Maryland Executive Program Conference on Finance and Leveraging for Public Housing Professionals
1996	National Crime Prevention Council Conference on Crime Prevention through Environmental Design
1996	Certified Public Housing Manager - National Association of Housing and Redevelopment Officials
1994	University of Missouri - St. Louis Doctor of Law - Honorary Degree
1994	University of Missouri - St. Louis Chancellor's Certificate Conflict Resolution
1981	University of Missouri - St. Louis B.G.S. Accounting
1974	BS Education (Social Studies)

Honors and Activities

Member: Leadership St. Louis, Confluence, Business and Education Partnership Commission, North County Inc., UMSL Alumni Association, University of Missouri Alumni Alliance, Trustee Public Housing Authorities Directors Association, Board of Director Missouri National Association of Housing and Redevelopment Officials , Trustee Missouri Housing Authority Property and Casualty Insurance (a state risk pool), Housing Resource Board of Commissioners, President of Mid-County Partners for Progress (a twenty-four municipalities Chamber of Commerce), and St. Louis County Work Force Investment Board

Awards: 1989 Outstanding Alumni University of Missouri - St. Louis, 1990 University of Missouri - St. Louis School of Education Outstanding Alumni, 1990 Horace Mann Award National Education Association of Missouri, 1993 Legislator of the Year North County Inc., 1994 Doctor of Law from the University of Missouri - St. Louis Honorary Degree, Fannie Mae Foundation 1996 Fellow, Kennedy School of Government Program for Senior Local and State Officials, Harvard University, Cambridge MA, 1998 Governors' Award for Excellence in Affordable Housing , 1999 HUD's Best Practices Award for the Family Investment Center, 2001 HUD's Community Partnership Award for the Townhomes of Stone Crest Redevelopment and New Construction and 2003 The Today Show "Lend a Hand" award for YouthBuild Program

NMHC National Multi Housing Council
National Apartment Association

TESTIMONY OF ANDREW SHOWE

VICE PRESIDENT,

SHOWE MANAGEMENT CORPORATION

ON BEHALF OF THE

NATIONAL MULTI HOUSING COUNCIL/

NATIONAL APARTMENT ASSOCIATION

JOINT LEGISLATIVE PROGRAM

BEFORE THE

HOUSE COMMITTEE ON FINANCIAL SERVICES

SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

JUNE 10, 2003

The American apartment industry...working together for quality, accessible, affordable housing.

SUITE 540 • 1850 M STREET, NW • WASHINGTON, DC 20036 • (202) 974-2300 • FAX (202) 775-0112 • WEB SITE: WWW.NMHC.ORG

Chairman Ney, Ranking Member Waters, and distinguished members of this Subcommittee, my name is Andrew Showe. I am Vice President of Showe Management Corporation, past president of the Columbus Apartment Association, and current member of the Board of the Ohio Apartment Association. I am a member of the National Multi Housing Council (NMHC), a national association representing the nation's larger and most prominent apartment firms. NMHC operates a joint legislative program with the National Apartment Association (NAA), an industry group representing over 30,000 apartment executives and professionals. It is my pleasure to testify on behalf of both organizations. Our combined memberships are engaged in all aspects of the apartment industry, including ownership, development, professional management, and finance. Together, NMHC/NAA members own and manage over five million apartment homes nationwide.

NMHC and NAA commend you, Chairman Ney, for your leadership, and we thank the Members of the Subcommittee for your valuable work addressing the important issue of affordable rental housing in America. We also commend U.S. Department of Housing and Urban Development (HUD) Secretary Mel Martinez and the Administration for their interest in improving the Section 8 Housing Choice Voucher Program.

We, too, believe it is critical to meet the housing needs of low- and moderate-income families and believe that improving the Section 8 program is a central part of meeting those needs. However, NMHC/NAA urge Congress, and HUD, to enact reforms to the <u>existing</u> Section 8 program that will encourage apartment owner participation and, in turn, increase housing available to voucher holders. Although it is well intentioned, we think the Housing Assistance for Needy Families Act of 2003 (H.R. 1841) will not reduce the administrative costs to participating property owners and will not maximize program benefits for residents by conforming the program to conventional market practices. Instead, the proposed legislation could create new obstacles to apartment owner participation without alleviating existing burdens. The net result could be fewer available apartments for voucher residents.

Professional apartment owners, in partnership with the current voucher administrators, have made great strides in helping low-income families find quality affordable rental housing through the Section 8 program – a partnership that helps the community as a whole. NMHC/NAA wholeheartedly support the Section 8 program as a means to engage private housing providers in providing affordable rental housing to families who need it. We believe more apartment owners would participate in the program if the costs of renting to voucher residents were more comparable to the costs of serving unsubsidized residents. In other words, the program must be more "transparent" to the market. NMHC/NAA propose the following recommendations to achieve that goal:

1. Funding

Some assert that the Section 8 appropriations structure should be reworked and reduced. Historically, many criticized the Section 8 appropriations structure because too much funding remained unused each year. To be sure, appropriations were once based upon the erroneous assumption that every authorized voucher would be utilized for an entire fiscal year and funds were routinely recaptured and rescinded. Those returned funds reduced annual appropriations to the amounts actually used. Effective this year, Congress enacted changes to minimize recaptures and, moreover, national utilization rates have risen to nearly 96 percent. That success should be recognized and the process supported. NMHC/NAA support increased utilization rates, and we believe that the existing successful appropriations structure is working. We have considerable concerns about the complexity of the proposed state-level funding structure contained in H.R. 1841. We urge continued funding for the existing program structure administered by HUD.

2. Inspections

Under current law, before an apartment is eligible for lease to a Section 8 voucher holder, the administering Public Housing Authority (PHA) must inspect that unit for compliance with HUD-prescribed Housing Quality Standards (HQS). Unit-by-unit inspections cause intolerable leasing delays and do not necessarily satisfy HUD's objective of protecting residents and assuring owner compliance with the Department's health and safety criteria. Unit-by-unit inspections delay resident occupancy even if the PHA conducts its inspection within the required time frame, and some apartment owners report delays of 30 days or longer. The apartment industry relies on seamless turnover to meet its overhead costs, and the financial implications of such delays are sufficient to deter them from participating in the program.

As proposed, Section 11 of the proposed legislation would extend the existing inspection requirement to HANF. PHAs would conduct individual unit inspections rather than property-wide inspections or relying upon recent past inspections. Importantly, the bill specifically states that owners would not receive any subsidy revenue until an inspection is completed, and the bill is silent on whether residents could move in prior to an inspection. In short, the proposed inspection provision would do nothing to fix the lost revenue problem.

NMHC/NAA propose speeding up the move-in process by allowing PHAs to conduct individual unit inspections within 60 days <u>after</u> the resident moves in and payment commences. PHAs could also conduct building-wide, rather than unit-by-unit, inspections in certain cases and rely upon recent past individual inspections. Alternatively, PHAs could initially inspect a representative sample of units in order to "certify" that the building is eligible. Thereafter, periodic inspections would assure that the property remains compliant with program rules. This approach would reward well-managed properties, allow PHAs to focus their scarce resources elsewhere, and maintain resident safety.

3. Payment System

PHAs are required to make prompt subsidy payments to apartment owners. However, subsidy payments are sometimes untimely either because of antiquated systems or HUD processing delays. Just as owners would not regularly accept late rental payments from conventional residents, they should not be asked to accept late subsidy payments. We commend HUD for authorizing a $75 late fee charged to PHAs that do not make timely payments due to accounting inefficiencies. We urge Congress and HUD to continue their efforts to provide timely payments to owners by ensuring that PHAs have the ability to make automated electronic fund transfers to owners. Some PHAs already use automated funds transfer systems but it would be helpful if HUD would provide technical assistance, funding, and other support to ensure that all PHAs have the capacity to utilize automated payment systems. HUD also should establish incentives to facilitate timely payments to owners.

4. Fair Market Rents and Payment Standard

Fair Market Rents (FMRs), set annually by HUD for each metropolitan area, must be set high enough to encourage owner participation and, in turn, create a sufficient supply of apartments and choice for voucher holders. We thank HUD for raising the current FMR level to the 50th percentile in 39 high-cost areas, but that level is insufficient in certain areas with extremely high-cost sub-markets. We urge HUD to enact a more efficient, streamlined process for PHAs to apply for higher FMRs that are more reflective of sub-market rents.

The current payment standard, the maximum amount that the housing agency will pay toward a family's rent minus thirty percent of the tenant's adjusted income, is generally capped at 110 percent of an area's FMR. If the area's FMR does not accurately reflect local market conditions, and the payment standard is not sufficiently high to allow owners to earn sufficient income to meet costs, owners will not participate in the program. Low FMRs are a primary reason many apartment owners do not participate in the voucher program. NMHC/NAA urge program changes that will allow PHAs to raise the payment standard to 120 percent of FMR without HUD approval, and afford PHAs increased flexibility to request higher payment standards when necessary to reflect actual market conditions in a particular location.

Conclusion:

In summary, NMHC/NAA believe that the existing Section 8 program, with improvements I have just noted, will make affordable housing available to more Americans. Widespread participation is not always economically feasible in the absence of the aforementioned program reforms that will reduce the sometimes-significant costs and burdens imposed on implementation of the program. I thank you for the opportunity to testify on behalf of the National Multi Housing Council and the National Apartment Association, and wish to offer our assistance to the Subcommittee as you continue your important work to improve affordable housing opportunities for low and moderate income families.

NCSHA

Testimony on the Administration's Section 8 Voucher Block Grant Proposal before the House Committee on Financial Services Housing and Community Opportunity Subcommittee by Barbara J. Thompson, Executive Director, National Council of State Housing Agencies

June 10, 2003

Chairman Ney, Representative Waters, and members of the Subcommittee, thank you for the opportunity to testify on the Administration's proposal to block grant Section 8 voucher funding to the states.

I am Barbara Thompson, executive director of the National Council of State Housing Agencies (NCSHA). NCSHA is a national nonprofit organization that represents the Housing Finance Agencies (HFAs) of the 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

NCSHA is grateful to you, Mr. Chairman, for stepping forward in defense of the Low Income Housing Tax Credit (Housing Credit) when it was threatened by the Administration's dividend tax relief proposal. Thanks to your intervention and that of Representative Frank and other members of this Subcommittee, Housing Credit apartment production will not be lost under the recently enacted jobs and growth tax bill.

Now we ask your help in enacting the Housing Bond and Credit Modernization and Fairness Act of 2002, H.R. 284, to assure families qualified for Housing Credit and Bond help receive it. H.R. 284 would repeal the Mortgage Revenue Bond (MRB) Ten-Year Rule, update MRB purchase price limits, and make Housing Credit development viable in very low-income, predominantly rural, communities. The Ten-Year Rule alone costs states more than $3 billion annually in low-cost MRB mortgage money that otherwise would be available to help working families buy their first home.

Thank you, Chairman Ney, and the 20 other members of this Subcommittee who have cosponsored H.R. 284. If you have not cosponsored this essential legislation, we urge you to join the 253 House members who have. We ask you all to press the House and Ways and Means Committee leadership to enact H.R. 284 in a tax bill this year.

NCSHA also thanks you, Chairman Ney, for introducing the Housing Assistance for Needy Families (HANF) Act, H.R. 1841. NCSHA neither supports nor opposes this legislation. Though we support a Section 8 voucher block grant in concept, we have taken a neutral stance on the Administration's plan because of our serious concerns about the adequacy of the program funding and administrative flexibility it proposes. We believe, however, the Section 8 voucher program requires reform and HANF is a restructuring proposal worthy of Congress' and the affordable housing community's close examination.

Section 8: A Linchpin of Federal Housing Policy

The Section 8 voucher program is one of our most important federal affordable housing programs. Vouchers make it possible for some of our lowest-income and most vulnerable individuals and families to afford decent rental housing. Vouchers make unsubsidized housing and housing financed with Housing Credits, HOME, and other federal subsidies affordable to very and extremely low-income families.

The Section 8 voucher program is not meeting its potential. The program's complex rules and regulations block innovation, drive up costs, discourage private sector involvement, and confuse customers and administrators. The extreme decentralization of funding to more than 2,500 public housing authorities (PHAs) complicates program administration, increases administrative costs, prevents maximum utilization of funds, and frustrates implementation of regional and statewide housing and related services initiatives. One symptom of these problems is the $1 billion or more in unused voucher budget authority Congress rescinds annually—funding forever lost to affordable housing and the people eligible to receive it.

The Benefits of State Administration

If implemented with sufficient funding and flexibility, HANF would resolve many of the current Section 8 voucher program's problems. HANF also would create new opportunities for voucher use not possible under the present system.

States have the capacity to administer the voucher program. State HFAs possess a multi-decade record of responsibility, effectiveness, accountability, and success in administering tens of billions of dollars of housing assistance. They possess statewide focus and sophisticated finance, underwriting, asset management, and administrative oversight capability. State HFAs are investment grade rated, financially sound institutions.

State HFAs successfully allocate the Housing Credit and issue tax-exempt private activity bonds (Bonds) to finance apartments for low-income renters and mortgages for lower-income homebuyers in nearly every state. Using Housing Credits and Bonds, they have helped finance 2.3 million affordable apartments and 2.3 million first-time homes.

State HFAs administer HOME Investment Partnerships (HOME) funding in 42 states. Through HOME, they have financed more than 250,000 apartments and homes, assisting over 30,000 families with HOME-financed tenant-based rental assistance.

State HFAs also partner successfully with HUD in the administration of FHA/HFA risk-sharing, Section 8 restructuring, homeless assistance, and housing counseling.

Many states already successfully administer Section 8 assistance. Forty-three state HFAs administer Section 8 project-based assistance, providing housing support to more than 600,000 families. Thirty-five state agencies administer more than $1.1 billion in voucher funds, serving approximately 175,000 families. No state HFA is on HUD's list of PHAs troubled under the Section 8 Management Assessment Program.

States are uniquely positioned to administer federal housing resources. They understand local housing needs and markets, while bringing a state and regional perspective to problems that cannot be solved within municipal boundaries. States can ensure housing funding is applied where it is most needed and integrated with other public investments in their physical, economic, and human infrastructure.

States are the only point where all federal and state housing resources—Housing Credits, Bonds, HOME, Section 8, Federal Home Loan Bank advances, FHA insurance, and state-provided funds—can be accessed in one place and brought to bear in a coordinated manner on housing needs.

Moreover, states have the ability to bring together state agencies and resources in ways the federal government and local communities cannot. State HFAs have partnered, for example, with welfare agencies to use Temporary Assistance to Needy Families (TANF) funds to provide housing assistance to families attempting the transition from welfare to work. They have teamed with state health and human services agencies to obtain Medicaid waivers to cover the cost of services in HFA-financed assisted living facilities. State HFAs work with state departments of mental health and retardation to link affordable housing to supportive services for people with mental illness and retardation.

State HFAs also successfully partner with local governments, non-profits, the private sector, resident and community groups, and service providers to address the unique and diverse housing challenges they confront. Because they operate on a business-like basis, state HFAs have proved extraordinarily entrepreneurial in using the resources available to them to meet community needs.

The voucher program, adequately funded and rationally regulated, would benefit from state administration. States' statewide focus, knowledge of local housing markets, access to other housing and non-housing resources, ability to respond to changing local circumstances and prioritize housing needs across their states, and administrative capacity would overcome many of the current program's limitations.

Through comprehensive and coordinated state, regional, and local planning, state HFAs would assure vouchers are used where they are most needed and in sustainable communities with access to jobs, transportation, schools, and health and other services. This is critically important because successful housing today means much more than merely shelter. Low-income families and those with special needs require services and proximity to economic opportunity to have the best chance of achieving self-sufficiency and a stake in their communities.

State administration would eliminate the confusion caused by overlapping local jurisdictions, provide greater administrative efficiency, and allow for easier portability of vouchers from one area of a state to another. States would be able to coordinate statewide voucher waiting lists, respond more quickly to changes in local rental markets, and shift voucher funding to areas of the state that need it most or can use it most efficiently. State administration would also allow states to couple rental assistance—tenant- or project-based—with other state-administered housing and non-housing assistance.

Federal oversight would be more effectively and efficiently concentrated on 50 entities than on more than 2,500 PHAs. HUD recognized this in limiting to the states administration of its 850,000 unit Section 8 project-based portfolio.

Adequate Funding Is Essential

HANF must not become an under-funded state mandate. NCSHA shares the concern voiced by many other housing organizations that HANF as proposed would be vulnerable to future funding cuts or insufficient funding increases.

H.R. 1841 offers states no assurance that Congress will maintain its commitment to fully fund authorized vouchers and accommodate increased voucher renewal costs over time. The bill authorizes appropriations of "such sums as may be necessary," but does not specify how much funding states would be provided or how that funding would be adjusted from year to year to account for housing cost increases.

We urge Congress to safeguard vouchers and the low-income families who depend on them by authorizing mandatory voucher spending in an amount at least adequate to finance all currently authorized vouchers. Only through mandatory funding can states be sure the federal government will maintain its commitment to this lifeline program.

Authorizing legislation also must specify that funds would be adjusted annually to cover housing cost increases. Housing cost increases continually outstrip rises in the general Consumer Price Index (CPI). If in future years, this trend continues and Congress either level-funds HANF or increases HANF funding only by the CPI or some other index not reflective of housing cost increases, states would be forced to serve fewer families, serve higher-income families, or require families to contribute more of their income for rent.

Congress also should provide sufficient funding for additional families to be served. According to Harvard University's Joint Center for Housing Studies' 2001 report, one out of every eight American families spends more than 50 percent of its income for housing. Currently, only about one in four voucher-eligible households receives any form of federal housing assistance.

In the face of this staggering need, funding for new incremental vouchers has dropped off dramatically in the last few years. As recently as FY 2001, Congress funded 80,000 new incremental vouchers. Last year, it provided none.

NCSHA also urges Congress to provide states administrative funding sufficient to cover their costs and effectively run the program. H.R. 1841 limits administrative fees to no more than 10 percent of a state's total grant amount, which may not be adequate.

States would perform many administrative functions now carried out by HUD and paid out of its administrative budget. These tasks include promulgating program rules; managing funding systems; surveying and establishing rents; overseeing PHA performance; enforcing compliance; and hiring, training, and compensating staff. In addition, states would need to comply with HUD oversight and reporting requirements and compensate local PHAs and other entities they retain to help administer the program.

A truly flexible program operated with minimal HUD oversight and interference may be less costly to run than the existing program. However, a careful analysis of state administrative duties is necessary to properly judge the cost of state administration.

Flexibility Is Key to Success

To work, HANF must be a flexible program, free from unnecessary and onerous federal requirements. HUD regulation must be limited to that which is necessary to assure nondiscrimination and accountability for the use of funds to achieve the goals Congress sets. Irrational and unnecessarily burdensome rules, regulations, and reporting requirements will frustrate states and their partners, smother creativity, and delay results.

H.R. 1841 would give states more flexibility than current law allows. Under the new structure, states could make several positive changes, such as adjusting payment standards in specific neighborhoods to give tenants increased access to high-cost markets with better job and education opportunities, improve recipient success rates, prevent improper rent subsidization, and increase landlord participation. States could move unused vouchers from area to area more readily.

Though we understand HUD intends to give states the flexibility to project-base block grant funds, the legislation does not make this clear. With greater flexibility to project-base assistance, states would be able to serve certain markets and recipients with special needs more effectively than under the current program. For example, the current program prohibits project-basing vouchers in high-poverty areas and project basing more than 25 percent of a building's apartments. With the elimination of these well-intended but arbitrary rules, states could more effectively use project-based vouchers as part of neighborhood revitalization strategies and to assist families seeking decent affordable housing in low-income areas where supportive services may be more readily available. States also would be able to support chronically homeless tenants in supportive housing.

The legislation also contains many requirements inconsistent with HUD's goal of limited regulation and maximum state flexibility. For example, HANF retains the current program's requirement that PHAs conduct inspections of potential units prior to committing program funds to owners. This requirement makes it difficult for voucher holders to compete with unsubsidized renters in securing apartments and discourages owner participation in the program. If states determine properties or owners and managers are consistently providing decent housing, they should be able to allow voucher recipients to occupy those apartments immediately and inspect them later.

NCSHA is particularly concerned about the bill's arbitrary policy-oriented performance standards. We whole-heartedly agree states should be accountable to HUD to administer funds without fraud, waste, or abuse. While some of the bill's standards are fair indicators of administrative performance, others would compel states to respond to federal priorities rather than their own.

Performance measures should be limited to those reflective of funding utilization, financial management, and compliance with statutory requirements. States should be free to determine their own additional performance objectives.

H.R. 1841 would impose a $50 minimum rent for tenants and only allow states to grant case-by-case hardship exemptions. States should have the discretion to set their own minimum rent policies.

H.R. 1841 would allow HUD to withhold a state's HOME or other HUD program funding if it finds the state in noncompliance with HANF requirements. A state's HANF performance is irrelevant to its performance under other HUD programs. Withholding HOME or other HUD funding would only penalize the state's low-income residents who stand to benefit from that funding.

In conclusion, exploring ways to improve the Section 8 voucher program is timely and appropriate. A block grant to states merits Congress' consideration. NCSHA is available to assist you in that effort.

June 10, 2003

75 69th Street, Apartment 6A
Guttenberg, NJ 07093

The Honorable Gary Miller
U.S House of Representatives
Washington, DC 20015

Via Facsimile

Dear Representative Miller:

I appreciated the opportunity to testify in front of the Subcommittee on Housing and Community Opportunity earlier today. As you may recall, you and I had a conversation during the course of today's hearing about homeownership and specifically how the block grant legislation could harm the Section 8 homeownership program.

In addition, I wanted to clarify some possible confusion that occurred during the hearing. In my oral presentation and in response to a subsequent question, I had noted my concerns about the ability of states, under the block grant, to reduce the percentage of extremely low income families admitted to the program from the current 75% to 55% through a waiver that HUD would grant (H.R. 1841, §6(a)(2)). In response, you commented that states under the block grant would still need to serve the same number of families as had been served prior to the implementation of the block grant. While that is true – although only, the legislation makes clear, if Congress appropriates sufficient funds (H.R. 1841, §3(b)) – I had been referring to a reduction in the percentage of families at a particular income level that would be served, not a reduction in the total number of families served.

As I shared with you in my written testimony, my own experience makes me certain that the voucher program should continue to serve a significant percentage of extremely low income families. It was only through receiving a voucher when my income was that low that I was able to achieve the stability in my life to improve my education and economic circumstances so that I can now dream about homeownership myself. But without rental assistance, I could not have gotten to this point – including having the opportunity to have had a dialogue with you during the hearing today.

Thank you very much for your consideration of this clarification. I have copied the Clerk of the Committee on Financial Services on this letter so that it can be made part of the record of the hearing.

Sincerely,

Telissa E. Dowling

Telissa Dowling

cc: Clerk, House Committee on Financial Services

**STATEMENT OF THE
NATIONAL ASSOCIATION OF REALTORS®
AND THE INSTITUTE OF REAL ESTATE MANAGEMENT
TO THE
HOUSE SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY
ON
PROPOSALS TO IMPROVE THE HOUSING VOUCHER PROGRAM**

June 10, 2003

The NATIONAL ASSOCIATION OF REALTORS® and its affiliate, the Institute of Real Estate Management welcome this opportunity to offer its observations and viewpoints on reforms to the Section 8 voucher program. The NATIONAL ASSOCIATION OF REALTORS® is comprised of over 880,000 real estate professionals involved in all aspects of the real estate industry, including the owners and managers of multifamily rental and commercial property. The Institute of Real Estate Management® is comprised of over 9,000 property management professionals who manage over 24 percent of the nation's conventionally financed apartment units, and 1.4 million units of federally assisted housing.

The NATIONAL ASSOCIATION OF REALTORS® and the Institute of Real Estate Management believe that federally assisted-housing programs have proven records for producing and preserving affordable housing. These programs must not only be preserved but also strengthened and provided with significant additional resources. Our members are involved in the ownership and management of Section 8 properties in recognition that affordable rental housing is the first step on the housing ladder for many Americans.

The Section 8 voucher program provides a government subsidy to bridge the gap between a low-income tenant's income and the cost of providing housing, enabling recipients to choose where they want to live. The property operator enters into a contract with the tenant and third party, usually the local housing authority, which pays the portion of the rent above the amount to which the tenant is directly obligated to the landlord, as a rental subsidy, subject to maximum fair market rents for the community. Because of the limited supply of affordable housing, each year tens of thousands of vouchers are returned, unused, to HUD because the families provided the assistance were simply unable to locate affordable housing.

Legislation has been introduced to dramatically change the Section 8 voucher program. ThE proposal, to block grant Section 8 vouchers, would give authority for the Section 8 program to states. States could then contract with housing authorities or other entities to administer the housing vouchers. The NATIONAL ASSOCIATION of REALTORS® opposes block granting of the Section 8 voucher program. We are concerned that state administration of the housing voucher program would place too high a responsibility on already burdened states. In addition, we fear that funding levels under the program, as proposed, would be insufficient to handle housing needs in the future. However, we do agree with the Administration that changes to the existing Section 8 voucher program are needed to improve and enhance efficiency and increase voucher usability.

A prominent reason for the deficient supply of available and affordable rental housing is property owners' increasing unwillingness to accept housing vouchers due to the regulatory burdens associated with the program. Participation in the program requires a property owner to sacrifice many private property rights and forces the operator to comply with burdensome government regulations and procedures, which can seriously compromise the performance and financial viability of a property. These disincentives include entering into housing assistance payment contracts; amendments of landlord leases; and compliance with regulations not normally attendant in conventional housing practices. Inconsistencies across housing authorities in the administration of the program further complicate the process. However, evidence has shown that those Public Housing Authorities (PHA), which conduct active landlord outreach programs have a far greater utilization rate than those that do not.

To encourage broader landlord participation in the Section 8 voucher program, and thus maximize the objective of the program, the National Association of REALTORS® and the Institute of Real Estate Management recommend the following specific changes:

- **Uniform Leases**– Most housing authorities require Section 8 voucher holders use a HUD lease-addendum that ignores conventional lease provisions, local and state landlord-tenant laws, and widely-accepted lease terms. This creates a property with two classes of residents – just what the program is attempting to avoid. Instead local PHAs should be encouraged to approve the landlord's standard lease, provided that it is compliant with state and local landlord tenant laws and applicable fair housing law. If some provisions are not satisfactory to the PHA, they can negotiate a lease-addendum that is acceptable to both parties. Requiring landlords to disregard their lease in favor of the PHA's lease terms is simply unacceptable to many property owners.

- **Timely Payment** – Many participating property owners complain about lengthy delays in receiving payments from PHAs, especially as they relate to new tenants. With a conventional tenant, the property owner often sets late charge fees for late rental payments, and as a last resort can evict residents who do not bring past due rent current. This is not the case with voucher tenants, in which the government mandates late charge penalties, which are often less than in conventional housing. In addition, the problem often lies with the payment process and not the tenants. While tenants may pay their portion of the rent in time, the government's share of the payment is often delayed. HUD should require PHAs to use an electronic funds transfer to make payments on a specific date each month. Owners should be allowed to charge the PHA reasonable late fees for payments not received on time, which would be an effective check and balance geared to efficient processing of rental subsidy payments.

- **Property Inspections** – The program requires PHAs to inspect all eligible units individually to make sure they meet Housing Quality Standards. It can take lengthy periods of time for this to occur; in the meantime the unit is left vacant and the property owner is receiving no revenue. This delay in lease and rent commencement is sufficient reason to discourage property owners from participating in the program. One solution would be to allow a random sample of units to be inspected in order to qualify a property. This could be done on a yearly basis, and would avoid the time-consuming unit-by-unit inspections that delay unit turnover.

Also during a re-inspection, tenants should be allowed to self-certify small deficiencies (such as missing light bulbs, missing batteries in smoke detectors, etc.). The property owner can make those repairs, which are necessary, but residents should be held responsible for those violations that are the tenant's contractual obligation, under their exclusive control, and/or that they have not reported to the building management.

- **Security Deposits** – Conventional tenants are responsible for excess damages on move-out. However, voucher residents aren't held to this same responsibility, since little security deposit is paid. In addition, the PHA conducts a yearly inspection of the property and holds the property owner responsible for repairs to the apartment, even those that are caused by tenant misuse of the unit. A conventional tenant would be responsible for paying for problems they caused in the unit. For a voucher tenant, the property owner must pay for the repairs or the PHA won't renew the contract. The landlord is then left to shoulder the burden of evicting the tenant and then paying for the repairs to attract a new tenant. PHAs should hold residents responsible for the condition of the unit, and should pay a security deposit for damages found after move out. To discourage tenants form abusing their rental unit, we believe tenants should be required to reimburse their former landlord for damages prior to future participation in the voucher program.

- **Delays in Occupancy** – A number of bureaucratic hurdles result in lengthy delays in occupancy of a tenant. Time involved in preparing appropriate documents, getting leases signed and approved, waiting for physical inspections (as discussed above), and similar technical holdups can cause a serious delay in tenant move-in. This means the unit stands vacant, with the property owner receiving no revenue, while all the proper forms are filed and routed through all number of individuals. The most important role of a property owner and property manager is to lease the property. Extensive delays in lease-up mean lost revenue. Quick turn-around is crucial for the success of voucher acceptance.

- **Landlord Outreach** – PHAs should be encouraged to hold informational meetings with local property owners and property managers to explain the program and to respond to concerns that may have dissuaded the owners from participating in the program in the past. Many owners simply are not familiar with many aspects of the program, and are leery to get involved with matters they don't understand. We have seen some PHAs select a specific individual to act as a liaison to property owners, including a "landlord hotline" that participating owners can call when they have problems or questions about the program. This creates a level of comfort for owners if they know they have someone specific to contact when they have concerns.

- **Rent Levels** – In some areas of the country, the rents permitted under the voucher program have not kept pace with rising rental markets. Last year HUD initiated a new program to allow Fair Market Rents (FMR) to be raised to the 50th percentile in high cost areas. This should be the standard in all markets. When rents are set at this level, 49% of rents fall below this amount, and 49% are above. This creates a rent level at the average rent for the area. Currently, the FMR is set at the 40th percentile and many owners believe that this does not fairly and accurately reflect market rates. Additionally, the Section 8 statute should be amended to allow PHAs to increase the payment standard above 120% of the Fair Market Rent (FMR).

In many areas of the country, the Section 8 voucher program discourages property owners from accepting voucher residents due to its burdensome and complex guidelines and operations. Housing Authorities that have implemented any of the above suggestions, or programs similar to them, have found much greater success in the use of vouchers by their residents. Instead of keeping landlords away, HUD and housing authorities should implement programs that incentivize owner participation, resulting in greater housing options for Section 8 residents.

The Section 8 voucher program allows families the freedom to make their own housing choices. However, without more flexibility in the program, families are often unable to find any housing at all. We encourage reforms to the program that provide greater housing opportunity for residents, by allowing housing authorities to respond to market demands in their area. Without such flexibility, vouchers go unused, and families are forced to remain in sub-standard housing.

In conclusion, the National Association of REALTORS® believes the Section 8 program is a fundamental and viable federal program that can be enhanced to meet program objectives and the intent of Congress. We appreciate the opportunity to share our viewpoints for improving the program, and we stand ready to work with the Committee to implement our recommendations.

NAHMA

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Testimony of Wayne Fox, HCCP, NAHP-e
President, National Affordable Housing Management Association (NAHMA)
House Financial Services Subcommittee on Housing and Community Opportunity
"The Section 8 Housing Assistance Program: Promoting Decent Affordable Housing for Families and Individuals Who Rent"
Tuesday, June 10, 2003

Chairman Ney, thank you for allowing me to present the views of the National Affordable Housing Management Association (NAHMA) with respect to the proposed Housing Assistance for Needy Families (HANF) block grant.

NAHMA represents owners and individuals involved with the management of affordable housing developments which are subject to the regulations of federal agencies. Our members have extensive experience with nearly all types of affordable housing, including Section 8 tenant based vouchers. NAHMA members provide quality affordable housing to more than two million Americans with very low and moderate incomes. Executives of property management companies, owners of affordable rental housing, public agencies and vendors that serve the affordable housing industry constitute NAHMA's membership.

After the HANF block grant was proposed in the 2004 Budget, NAHMA members thoroughly considered the issue. On March 3, NAHMA's Federal Government Affairs Committee began formal consideration of the proposal as explained in the budget request. The proposal was also put to a vote among our membership. As the final stage in our public policy development process, NAHMA's Board of Directors considered the proposal. On March 27, our Board voted to strongly oppose the proposed Section 8 HANF block grant.

Mr. Chairman, please know that our association appreciates your willingness to approach this issue with an open mind. We understand that HR 1841 was introduced at the request of the Administration. We are grateful that you and Ranking Member Waters have provided an opportunity for those of us directly involved with the Section 8 program to express and explain our views.

NAHMA believes the current Section 8 tenant-based voucher program can be improved. Our members involved with the tenant-based voucher program agree that the program could achieve better utilization rates if additional administrative flexibility were granted. Some of our members have also suggested landlord participation could be increased by raising payment standards, alleviating paperwork requirements, and simplifying the inspection process. NAHMA is interested in working with the Administration and members of this Subcommittee to improve the voucher program within the current programmatic framework.

That said, NAHMA does not believe block-granting tenant-based Section 8 assistance will improve the delivery or utilization of rental assistance. NAHMA strongly opposes the HANF block grant for reasons which I will explain.

First and foremost among NAHMA's concerns is preserving Section 8 tenant-based vouchers as a key component of federal housing assistance. NAHMA is concerned that HANF could be the first step in de-federalizing or eliminating rental housing assistance altogether. We believe the federal commitment to affordable housing programs should be maintained. I would like to reiterate that NAHMA agrees greater efficiencies could be achieved in the tenant-based Section 8 voucher program. However, we respectfully suggest that a more pragmatic solution would allow greater flexibility for rent increases and administrative streamlining in the current federal program.

NAHMA is extremely concerned that the HANF block grant, in any form, may not keep pace with the costs of providing rental assistance. States are currently having significant budget difficulties. If they are given responsibility for HANF, and if the federal government does not sufficiently fund the program, it is unclear whether states would be financially able to continue serving the same number of voucher recipients—much less expand the program to serve additional families. NAHMA is concerned that the voucher program may be jeopardized if it is block granted and subsequently under-funded at the federal level.

Our concerns about inadequate funding are underscored in the section of HR 1841 which grandfathers current Section 8 voucher holders under the HANF program. There is great uncertainty about what happens to families receiving assistance through the current Section 8 program if the HANF grant is not enough to fund their subsidies in the amounts specified by the current program requirements. The legislation requires that, "the State shall make every effort to continue to provide assistance to the greatest extent possible to the same number of assisted families in the State." We fear States will be left to their own resources, which may be insufficient to make up the difference, if the funding they receive from the federal government is not enough.

NAHMA is also skeptical about the likelihood of achieving a smooth transition from local to State administration in only one year's time. Please consider that many States are having their own budget difficulties; the extent to which they would be willing or able to invest the necessary time and money for personnel, training, and policy development to design and administer their own programs is unclear. If States simply opted to subcontract administration to the PHAs, a legitimate question develops as to why so much effort has been undertaken to add an extra layer of administration. Beyond creating and administering their individual programs, States will also be responsible for inspecting the dwelling units, determining what constitutes a "reasonable rent" compared to "rents charged for non-luxury dwelling units in the private unassisted local market," and establishing the maximum subsidy levels for housing assistance. With 50 different States making such determinations, the program would become extremely confusing. In our opinion, it would also be unlikely to be accomplished and running smoothly in one year's time.

In summary, NAHMA is concerned that States could be short-changed through the HANF program, and by extension, so could landlords and their tenants. We strongly urge members of this Subcommittee to focus their energy and attention on ways to improve the Section 8 tenant-based voucher administration and utilization within the current programmatic framework. NAHMA is eager to work with you towards this important goal.

Thank you again for allowing me to convey NAHMA's position to this Subcommittee.

A P P E N D I X

June 17, 2003

Opening Statement of the Honorable Bob Ney
Chairman
Subcommittee on Housing and Community Opportunity
Committee on Financial Services

"The Section 8 Housing Assistance Program: Promoting Decent Affordable Housing for Families and Individuals who Rent – Day 3"

Tuesday, June 17, 2003

Today, the Subcommittee holds its third in a series of hearings to examine the current operation and administration of the Section 8 Housing Choice Voucher program and review various proposals intended to make the program more efficient and cost effective.

Since the 1970s, rental vouchers have been a mainstay of federal housing policy. Currently, the Section 8 housing voucher program supplements rents payments for approximately 1.5 million individuals and families.

Recipients choose a house or an apartment available in the private market and contribute 30 percent of their income toward rent, while Section 8 pays the difference, up to a locally defined payment standard.

While the concept of the program remains sound, the program has often been criticized for its inefficiency. More than a billion dollars are recaptured from the program every year, despite long waiting lists for vouchers in many communities. The rising cost of the Section 8 program and some of the administrative concerns have caused many in Congress and the Administration to conclude that the program is in need of reform.

Michael Liu, Assistant Secretary of Public and Indian Housing at the Department of Housing and Urban Development, testified at the first hearing on May 22, 2003. His testimony focused primarily on the Administration's proposal entitled, Housing for Needy Families (HANF). HANF would reform the Section 8 Housing Choice Voucher Program into a state-administered block grant proposal.

On July 10, the Subcommittee heard testimony from representatives from tenant organizations, landlord and development organizations, large and small public housing agencies and the state housing finance agencies. The testimony focused on the pros and cons of the HANF proposal and on suggested changes to the Section 8 Housing Assistance Program.

This afternoon, our two panels consist of experts on the federal government's primary program for addressing the housing needs of low-income renters, Section 8.

I look forward to hearing the different perspectives and would like to welcome all of our distinguished witnesses as we continue to discuss ways to improve America's communities and strengthen housing opportunities for all citizens.

I now recognize the Gentlewoman from California and the Subcommittee's Ranking Member, Ms. Waters.

STATEMENT OF THE HONORABLE WM. LACY CLAY
Before the
Subcommittee on Housing and Community Development
"The Section 8 Housing Assistance Program: Promoting Decent Affordable Housing for Families and Individuals Who Rent"
June 17, 2003

GOOD AFTERNOON MR. CHAIRMAN, RANKING MEMBER WATERS, MEMBERS OF THE COMMITTEE, AND WITNESSES.

I STATE AGAIN AND EMPHATICALLY THAT SECTION 8 VOUCHERS ARE IN SHORT SUPPLY AND ARE PROPOSED TO BE PLACED IN A VOUCHER GRANT PROGRAM FOR THE STATES IN 2005 AND I DO NOT BELIEVE THAT IS WILL WORK. WHEN WE CONSIDER THE DIRE FINANCIAL STRAITS MOST STATES ARE IN, AT THE PRESENT, WITH NO RELIEF IN SIGHT, IT WOULD BE A DISASTER TO PLACE SECTION 8 VOUCHERS IN BLOCK GRANTS. STATES WOULD HAVE NO CHOICE THAN TO ATTEMPT TO MANIPULATE FUNDS FOR THE PURPOSE OF PAYING FOR SHORTFALLS IN OTHER AREAS.

WHY ARE WE GOING TO TAKE A SUCESSFUL PROGRAM, SEND IT TO THE STATES AND CREATE ASTRONOMICAL PROBLEMS FOR SYSTEMS THAT ARE NOT ADEQUATE TO STREAMLINE VOUCHER ADMINISTRATION? THIS IS NOT THE WAY TO REFORM THE PROGRAM. THE ANSWER TO EVERY PROBLEM IN GOVERNMENT ISN'T TO SEND THE PROGRAM TO THE STATES OR PRIVATIZE IT. THE PROGRAM IS FAR FROM PERFECT; HOWEVER, IT IS WORKABLE AND, WITH IMPROVEMENTS, WILL PERFORM EFFICIENTLY AND EFFECTIVELY FROM THE FEDERAL LEVEL.

THERE IS NOT A BENEFIT FOR THE LOW INCOME VOUCHER RECIPIENTS OR FOR CITIZENS WITH DISABILITIES WHO ARE VOUCHER RECIPIENTS BY SENDING THE PROGRAM TO THE STATES IN THE FORM OF BLOCK GRANTS. WHAT FEATURES ARE THERE IN A BLOCK GRANT PROGRAM THAT WOULD IMPROVE ADMINISTERING THE SECTION 8 PROGRAMS TO CITIZENS WITH DISABILITIES? WHAT NEW LIMITATIONS WOULD BE INSTITUTED INTO THE RULES BY STATES WHEN ADMINISTRATING THE PROGRAM? THERE ARE TOO MANY UNCERTAINTIES ASSOCIATED WITH THIS PARTICULAR, PROPOSED CHANGE TO THE SECTION 8 VOUCHER PROGRAM.

BLOCKS GRANTS HISTORICALLY HAVE A TENDENCY TO HAVE FUNDING LEVELS DROP OVER A PERIOD OF YEARS. THIS PROGRAM CANNOT AFFORD TO HAVE A CUT IN FUNDING FOR ANY REASON. IF ANYTHING, IT NEEDS AN INCREASE. WE HAVE NOT APPROCHED A REMEDY FOR THE HOUSING PROBLEM THAT IS A CURE ALL. PUTTING SECTION 8 FUNDS IN

BLOCK GRANTS TO STATES IS CERTAINLY NOT A REMEDY OR A CURE FOR THE PROBLEMS OF THE PROGRAM.

MR. CHAIRMAN, I ASK UNANIMOUS CONSENT TO SUBMIT MY STATEMENT TO THE RECORD.

Testimony of Sheila Crowley, MSW, Ph.D.
President
National Low Income Housing Coalition

United States House of Representatives
Committee on Financial Services
Subcommittee on Housing and Community Opportunity

June 17, 2003
Washington, DC

Please note that material from the *2003 State of the Nation's Housing Report* is embargoed until 12:01 pm on Tuesday, June 17, 2003.

Chairman Ney, Ranking Member Waters, and members of the Subcommittee on Housing and Community Opportunity, thank you for the opportunity to offer testimony today on the Section 8 Housing Voucher Program and H.R. 1841.

I am Sheila Crowley, President of the National Low Income Housing Coalition, representing our members from every state who share the goal of ending the affordable housing crisis in America. Our members include non-profit 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.

Let me say from the outset that the National Low Income Housing Coalition strenuously opposes the proposal to convert the Section 8 Housing Voucher Program into a block grant to the states. Among the members of our board of directors and our membership at large, the National Low Income Housing Coalition has substantial experience with and expertise on the housing voucher program. We understand the program's value, issues, and challenges. We have advocated with Administrations and Congresses of both parties to expand and improve the program since it began as Section 8 tenant-based assistance in 1974, the year NLIHC was founded. We are deeply committed to the health and success of the housing voucher program. We consider it to be a co-equal partner in the trio of solutions to the affordable housing crisis – production, preservation, and income subsidies.

The Housing Affordability Crisis

This committee has carefully studied the depth and breadth of the affordable housing crisis in the United States and has come to the same conclusions as many others. There is a serious shortage of housing units that are affordable for the lowest income households. This results in one or more of the following: 1) low income households pay precipitously high percentages of their income for their housing and cannot afford other necessities; 2) adults in low income families work excessive numbers of hours per week depriving children and parents of family time; 3) low income families or individuals are preyed upon by unscrupulous landlords who get away with renting slum housing in tight housing markets; 4) low income families or individuals are forced to double-up with someone else and live in overcrowded, physically and emotionally stressful arrangements; or 5) low income families or individuals lose their homes to eviction or foreclosure, experience high rates of residential mobility, or join the growing ranks of the homeless.

The latest analysis of the affordable housing crisis is contained in the *2003 State of the Nation's Housing* report issued by the Joint Center for Housing Studies of Harvard University just this morning. Despite 2002 being another banner year for housing in general and housing being the one bright spot in an otherwise dismal economy, the Joint Center reports that three in ten U.S. households have housing affordability problems, with 14.3 million households spending more than half of their income for housing and 75% of them in the bottom 20% of the population by income. These include both renters and homeowners. The gap between the number of renter households in the bottom 20% of income and the number of housing units they can afford stands at two million.[1] In a May 2003 poll of 800 likely voters commissioned by the National Low Income Housing Coalition, 52% agreed that they or someone they knew well had had difficulty paying for rent, mortgage, or utilities sometime in the last year.

Besides the suffering experienced by families and individuals with housing problems, why does the lack of affordable housing matter? Low income families have higher rates of residential mobility than do more prosperous families, Frequent moves, moves that are externally imposed and not by parental choice, and moves that do not result in improved housing conditions are detrimental to children and frequent moves that result in changing schools have adverse

[1] Joint Center for Housing Studies of Harvard University. (2003, June). *The state of the nation's housing 2003*. Cambridge, MA: Author.

consequences for children's educational achievement.[2] In a study of maternal health and infant mortality among poor women, the single most important factor whether or not poor children lived to one year of age was if their mothers had stable housing during pregnancy and the babies' first year.[3] Clearly, failure to address the affordable housing crisis has far reaching consequences for the well-being of individual children and the nation as a whole.

Fortunately, the affordable housing crisis is not an intractable problem that eludes our ability to understand and address it. What eludes us is the political will to make solving the affordable housing crisis a national priority. We need to do three things: 1) allocate resources to build more affordable housing, 2) allocate resources and exercise policy choices to preserve the affordable housing we already have, including public and assisted housing as well as unassisted housing, and 3) expand and improve tenant-based subsidies.

Until recent years, there were divisions among housing advocates about the effectiveness of project-based vs. tenant-based subsidies. In 1999, the National Low Income Housing Coalition convened consultations among all the stakeholders and reviewed all existing research, out of which came a consensus that the voucher program was necessary and important, *and* in need of reform. Problems that inhibited the utilization of the voucher program were grouped into three categories: 1) administration, 2) discrimination, and 3) lack of housing stock.[4]

Objections to H.R. 1841

H.R. 1841, the Housing Assistance for Needy Families Act of 2003, only addresses one of the areas of needed reform, namely the administration of the voucher program, but does so in a heavy-handed and off-target manner. Further, the proposal to block grant the voucher program to the states in order to improve

[2] Crowley, S. (2003). The affordable housing crisis: Residential mobility of poor families and school mobility of poor children. *Journal of Negro Education, 72*(1), 22-38.
[3] Culhane, J. & Elo, I. T. (2001, October). *Social behavioral determinants of infant mortality among low income women in Philadelphia.* Unpublished manuscript. Thomas Jefferson University, Department of Obstetrics and Gynecology, Philadelphia, PA.
[4] Maney, B. & Crowley, S. (2000). *Scarcity and success: Perspectives on assisted housing.* Washington, DC: National Low Income Housing Coalition.

its administration fails to recognize substantial improvement in the administration of the voucher program by public housing agencies in the last two years. Indeed, utilization is up to such an extent that HUD, we understand, will not even bother reallocating unused vouchers this year, because there are not enough to justify implementing the reallocation process. The voucher block grant proposal seems like a solution looking for a problem to attach itself to.

There are numerous reasons to reject this proposal, not the least of which is that two million low income households currently have a stable place to live as a result of this program. Under the best of circumstances (a thoughtfully laid out plan and the ability to carry it out), disruption and displacement will occur, however unintended. It is one thing to structure a new program to reflect a preferred approach to administration. It is quite another to experiment when the well-being of two million households is at stake.

Rather than simplify the administration of the program as the proposal purports, changing from one set of rules known to all to at least 51 sets of rules known only within jurisdictional boundaries would seem to create extraordinary complications. Adding a new layer of bureaucracy hardly seems devolutionary. Further, the reliance on local codes to determine housing quality means that even with a state, the rules could vary from locality to locality.

The amount of state discretion in setting the rules for their programs seems to be a way to get around hard-reached bipartisan consensus in the 1998 Quality Housing and Work Responsibility Act on income targeting, time limits, eligibility for housing assistance and resident participation. Governors would be granted considerable latitude that may contradict what Congress intended and enacted.

The failure of H.R. 1841 to guarantee that the funding of the housing voucher program would keep pace with housing costs is its greatest flaw. As you have heard from numerous witnesses, H.R. 1841 not only lacks assurances of adequate funding for the current program, it sets the stage for reduced funding over time.

An analysis of other block grants validates this concern. Since 1982, the funding for the 11 block grants that are intended to serve a social welfare purpose has fallen by 11% when adjusted for inflation. The HOME program has lost 5% of its inflation-adjusted value since it was enacted in 1990. The Community Development Block Grant, devolution of an earlier era that combined several categorical programs into one block grant, has lost 32% of its inflation-adjusted value since 1982. And please note that the cost of housing has risen appreciably faster than general inflation.[5] So we can expect to see erosion in funding of the block grant over time, which will leave states, not Congress, with the hard choices of who will lose their housing assistance.

Attached to my testimony is a paper produced by the Center on Budget and Policy Priorities on the effects of this erosion of funding for the housing voucher program. The paper's primary author is Barbara Sard, who is the nation's leading expert on the housing voucher program and who, as a member of the NLIHC board of directors, chairs our voucher policy committee.

Besides the inability of states to continue to serve the same number of low income people at the level to assure housing affordability, much less expand assistance to help the many thousands of people on housing voucher waiting lists, the uncertainties around future funding will give many landlords a valid reason to abandon the housing voucher program. This undercuts the very basis for the housing voucher program, i.e. to create a partnership with the private housing market. Further, use of project-based housing vouchers to spur new affordable housing production and use of housing vouchers for home ownership would be seriously undermined. It is the reliability with which Congress has lived up to its commitments that gives developers and lenders the confidence to do business with voucher holders. With the abdication of that commitment, we should expect the private sector to be much less interested in investments based on the availability of housing vouchers.

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[5] Sard, B. & Fischer, W. (2003, May). *Housing voucher block grant bills would jeopardize an effective program and likely lead to cuts in assistance for low-income families.* Washington, DC: Center on Budget and Policy Priorities.

Another commitment that Congress has made does not appear to be accounted for in the bill, the commitment to people in project-based assisted housing that assures them they will not be displaced when the owners of their homes decide to prepay or opt-out of the Section 8 program. Congress has promised these residents, the majority of whom are elderly or disabled, vouchers of sufficient value to be able to pay the new rent for as long as they stay in their current homes. Under the provisions of this bill, that commitment could end after one year, forcing thousands of elderly and disabled people to seek housing elsewhere.

Protestations that erosion of the voucher program is not the Administration's intent notwithstanding, the mounting federal deficit and the corresponding debt that it creates will force harsh measures in the not-too-distant future. Unfortunately, the Administration's rationales for converting the housing voucher program to a block grant to states are unconvincing when analyzed in the current fiscal environment. In this environment, converting the housing voucher program to a block grant to states is best understood as stage setting for future cuts to the program.

What Should Be Done To Improve Administration of the Voucher Program?

This conclusion is given weight by the fact that there are several straightforward things that Congress could do to improve the administration and utilization of housing vouchers that are much less radical. Indeed, the Financial Services Committee attempted to do just that in the last Congress in H.R. 3995, your omnibus housing bill. Other bills introduced by Senator Bond and Senator Sarbanes in the 107th Congress had similar reforms. These are the places to look for the needed changes.

First, HUD already has the authority to reallocate unused vouchers from one administering agency to another. Congress should consider making reallocation provisions that automatically move vouchers from communities that cannot use all their housing vouchers to those that can and to the extent possible keep those housing vouchers in the same region so that people on the various waiting lists in the region will have a chance to obtain a housing voucher. The threshold for reallocation should be very high, a 95% utilization rate.

Congress should consider experiments with consortia of administrators to streamline the housing voucher program. I live in the small, independent city of Fredericksburg, Virginia, which is surrounded by two large counties. Until recently, each jurisdiction ran its own housing voucher program even though the housing market transcends jurisdictional lines. Then they joined forces and contracted with a local non-profit, the Central Virginia Housing Coalition, to run the program. This consolidation has appreciably improved access to housing vouchers by citizens in all three jurisdictions.

Second, Congress should consider reforms that will incentivize owners of rental property to participate in the program. One is to make the inspection process more flexible and less time consuming for owners, without jeopardizing the necessity that federally assisted housing must be safe and healthy. HUD could also provide incentives to housing administrators to convert to automatic electronic payment systems to assure owners of timely payment.

Third, Congress should provide funds to assist housing voucher holders find and access available housing in their areas. A voucher success fund could assist with application fees, credit checks, and security deposits, many of the hidden costs of finding housing. A voucher success fund could support housing search assistance, outreach to landlords, and counseling on a range of issues to assure housing success.

Discrimination Against Housing Voucher Holders

These measures - reallocation, inspection reform, and voucher success funds - would all address the administrative issues that limit housing voucher utilization. However, we know that some landlords decline to accept housing vouchers because they object to the people who are voucher holders. This is their right except in those states and localities where discrimination on the basis of source of income is illegal and when refusing to rent to a voucher holder is simply a proxy for illegal housing discrimination on the basis of race, disability, family status, or other protected classes. Congress should consider authorizing a testing program that would attempt to discern the extent to which discrimination against housing voucher holders violates federal fair housing laws.

Lack of Housing Stock

Ultimately, the success of the housing voucher program depends on the availability of safe, decent, and affordable housing. The shrinking supply of affordable rental housing has been extensively documented elsewhere including in hearings before this committee in 2001 and 2002. This resulted in bipartisan agreement among the members of the Financial Services that some form of new housing production program is needed. As Mr. Frank says, the disagreement among committee members is not about the need for new housing production resources, but about how best to allocate resources.

The need for new housing production and preservation resources was well documented by the Millennial Housing Commission, which recommended federally funded capital grants to build more rental housing affordable to the lowest income households. Several members of the housing industry came together earlier this year to make a similar recommendation for capital grant funds for rental housing production, the majority of which would be targeted to extremely low income households. And of course, new resources to invest in housing production, preservation, and rehabilitation is the objective of a national housing trust fund. We urge the committee to take up H.R. 1102, the National Affordable Housing Trust Fund Act of 2003, at the earliest possible date. This bill now has 200 cosponsors and over 4,200 endorsements by organizations and state and local elected officials across the country.

Thank you again for inviting me here today to represent the National Low Income Housing Coalition.

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May 14, 2003

HOUSING VOUCHER BLOCK GRANT BILLS WOULD JEOPARDIZE AN EFFECTIVE PROGRAM AND LIKELY LEAD TO CUTS IN ASSISTANCE FOR LOW-INCOME FAMILIES

By Barbara Sard and Will Fischer

Summary

On April 29, two similar bills (H.R. 1841 and S. 947) were introduced that would end the existing Housing Choice Voucher program (sometimes known as the "Section 8" voucher program) and replace it beginning in fiscal year 2005 with a block grant to the states, which would be called Housing Assistance for Needy Families (HANF). The Administration included such a proposal in the budget it unveiled in February, but until now details on how the proposal would work were unavailable. The two new bills provide the specifics of the Administration's plan.

Analysis indicates that this radical change in the nation's largest low-income housing program is likely to damage substantially a program widely viewed as effective in providing housing assistance to low-income families and elderly and disabled individuals. In particular, the block grant bills would eliminate the existing funding structure, under which Congress adjusts funding for the program each year based on changes in *actual voucher costs* and under which Congress seeks to provide sufficient funds each year either to cover all authorized vouchers or to cover all authorized vouchers *in use*. Instead, under the new proposal, Congress could simply pick an amount to appropriate for the block grant each year. There would be no formula underlying the annual funding level that was related to the number of vouchers in use or to changes in rents. In light of the tight funding constraints that the Appropriations Committees will operate under in the years ahead, as well as the past history of funding levels for other similar block grants, it is likely that funding for the new block grant would not keep pace with changes in rental costs — and could be frozen in many years at the previous year's level. If funding falls behind the program's needs, as likely would occur, states would either have to contribute their own funds to the program or reduce assistance to low-income families and elderly and disabled individuals in one or more of the following ways:

- **Reducing the number of families that receive housing vouchers,** despite the fact that three out of four low-income families eligible for vouchers already go without housing assistance because of funding limitations. A reduction in the number of vouchers would make the shortage of affordable housing still larger.

- **Cutting costs by shifting housing assistance to higher-income families.** Such families need smaller subsidies to be able to afford housing. As a result, the

average cost of providing a housing voucher to these families is smaller than the cost of serving poorer families. The block grant would likely lead to the shift of some vouchers from poor families to moderate-income families, both because the block grant funding levels likely would not keep pace with housing costs and because the block grant proposals would substantially weaken current rules that target most vouchers on poor families. The new proposal would authorize HUD to allow states to use up to 45 percent of vouchers to serve households at any level, with no upper income limit.

- **Cutting costs by shifting rental burdens to families participating in the program.** Another cost-saving measure that states could feel compelled to adopt would be to shift more of the rental costs to the families being assisted. This could be accomplished by requiring families to pay more than 30 percent of income for rent or reducing the total amount of rent that a voucher could cover (and thereby making fewer housing units accessible to voucher families).

The proposed block grant legislation poses other significant problems as well. The potential for funding not to keep pace with housing costs would likely deter some landlords from accepting vouchers, since the rental revenues that vouchers provide would be less reliable. Seven national organizations representing apartment owners have written a letter expressing strong concerns that a block grant would reduce private-sector participation in the program.

The block grant bills would also grant states greatly expanded power to decide where voucher holders could live. This could be done by declaring neighborhoods or sections of a state off limits to families with vouchers, by requiring that families use their vouchers in designated developments, or by setting maximum voucher payments at levels that make many neighborhoods unaffordable to voucher holders. In some states, there would be substantial political pressure to use this power to direct voucher holders to high-poverty neighborhoods with predominantly minority populations. Placing limits on where voucher holders can live would make it more difficult for families to use their vouchers to move to neighborhoods with more jobs, lower crime, or better schools and would thereby undercut the program's role in helping families move from welfare to employment.

Background on the Housing Voucher Program

Housing vouchers are the nation's principal form of low-income rental housing assistance. Households with vouchers typically pay approximately 30 percent of income for rent, with the vouchers covering the remainder of the rental cost for modestly priced units. The approximately 2.1 million vouchers currently authorized by Congress reach only a modest fraction of the low-income households eligible for them. Due to funding limitations, about three-fourths of the low-income households that are eligible for vouchers do not receive any form of federal housing assistance.

Approximately 17 percent of households with vouchers are elderly. An additional 22 percent include an adult with a disability. As a result, pensions and disability or retirement benefits (such as Social Security or SSI) are the primary source of income for 42 percent of voucher holders. Another 35 percent of voucher holders are working poor families that receive their income primarily from wages. Approximately 13 percent rely primarily on income from benefits from welfare programs for families with children or state general assistance programs.[1]

The voucher program is highly effective in providing needed housing assistance. The bipartisan, Congressionally-chartered Millennial Housing Commission strongly endorsed the voucher program in the report it issued in May 2002, describing it as "flexible, cost-effective, and successful in its mission." A 2002 study by the General Accounting Office found the voucher program to be the most cost-effective of the federal housing programs that the study examined.

Funding for Housing Vouchers Would Be Likely to Erode Over Time

The block grant bills would eliminate existing statutory and regulatory provisions that commit the federal government to adjusting funding each year to reflect the actual costs of vouchers.[2] These bills contain no alternative provision to adjust voucher funding from year to year based on changes in housing costs or any other factor. Instead, the bills would simply authorize Congress to provide whatever level of appropriations Congress considers appropriate for operating the voucher program each year. In the absence of a structure for adjusting funding, it is likely that funding would be frozen or that adjustments would be inadequate to keep pace with rising housing costs. If funding were not adjusted adequately, it would fall behind the amount needed to maintain assistance at its current level, with the shortfall growing with each passing year.

The existing system has consistently resulted in annual funding levels that have been sufficient to avoid shortfalls. The final decision regarding the funding level is made each year by Congress, but statutes and regulations commit the federal government to funding vouchers based on their actual cost. In addition, because of the program's nature and structure, it is difficult for Congress to fund the program at a level that fails to meet this commitment. HUD and the Appropriations Committees estimate each year the amount that is needed to renew all existing housing vouchers (or all vouchers expected to be in use). An appropriation of less than that amount can readily be identified as a federal funding cut that would result in a particular number of vouchers being lost and a corresponding number of low-income families and elderly and

[1] HUD Multifamily Tenant Characteristics System data for the 18-month period ending September 2000, as reported in *Housing Choice Voucher Location Patterns: Implications for Participants and Neighborhood Welfare,* HUD Office of Policy Development and Research, January 2003, pp. 92-93, Tables A-5 and A-6. About eight percent of the families with an elderly or disabled head or spouse also have minor children. A total of 61 percent of voucher households are families with minor children, and eight percent are non-elderly non-disabled single individuals or couples without children.

[2] The 1998 housing act required HUD to renew the cost of housing vouchers each year based on a formula to be developed through a negotiated rulemaking. The renewal rule that resulted from this rulemaking process requires HUD to provide renewal funding to housing agencies for their authorized number of vouchers based on the agencies' actual average voucher costs in the previous year, adjusted for inflation. In the fiscal year 2003 appropriations act, Congress reaffirmed that vouchers should be renewed based on actual costs and required that funding be provided for the authorized number of vouchers in use, as explained below.

disabled individuals not being served. Few policymakers advocate cutting the number of vouchers, and sufficient funding to renew all existing vouchers (or, for fiscal year 2003, all vouchers *in use*) is routinely provided.

This reluctance to provide insufficient funding to the voucher program is illustrated by Congress' actions during consideration of fiscal year 2003 appropriations for the voucher program. In October 2002, the House Appropriations Committee approved a funding level of $11.7 billion to fund the vouchers that it expected to be in use during 2003. When Congress approved a final 2003 appropriations bill in February 2003, it provided $12.4 billion to fund roughly the same number of vouchers. This substantial increase, which came at a time when the fiscal environment was tight and funding increases for many popular programs were being rejected, was provided to cover an upward revision in HUD's estimate of how much vouchers would cost on average in 2003 — and therefore of the amount needed to provide sufficient funding for all vouchers in use.

By contrast, under a block grant, there would be no specific appropriation level that could be identified as being needed to assure that all existing vouchers are maintained. To be sure, it could be determined how much funding the block grant would need to keep pace with inflation, but that can be determined for virtually all discretionary programs. Each year's Congressional Budget Office "baseline" shows the amount each program needs to stay even with inflation. Despite the CBO baseline, appropriations for numerous programs are frozen or increased by less than inflation each year.

Moreover, it would be virtually impossible to identify what specific cuts in the voucher program would be instituted — and who would be harmed — if the appropriations levels for the block grant failed to keep pace with program needs. Such decisions would be made subsequently in the states, not in Washington. In similar situations, various other block grants have had their funding frozen or have fallen behind the level needed to keep pace with inflation.

- An analysis of 11 block grants that serve low-income people in the areas of housing, health, and social services shows that, when adjusted for inflation, funding for these programs fell by an average of 11 percent from 1982 (or the first year the program was funded as a block grant, if later) through 2003.[3]

- The only two block grants that experienced substantial inflation-adjusted growth are both grants that fund child care assistance; these grants received funding increases in the late 1990s when the establishment of work requirements under the TANF program greatly increased the need for child care assistance to current and former welfare recipients.

[3] The block grants included in this analysis are the Child Care and Development Block Grant, Child Care Entitlement to States, Community Development Block Grant, Community Services Block Grant, HOME Investment Partnership, Low-Income Heating and Energy Assistance Program, Maternal and Child Health Block Grant, Preventive Health and Health Services, Social Services Block Grant, State Children's Health Insurance Program, and Temporary Assistance for Needy Families.

- Inflation-adjusted funding for the nine block grants in areas other than child care fell by an average of 22 percent from 1982 (or the first year the program was funded as a block grant, if later) through 2003.

> **Funds Provided for *Administration* of the Voucher Block Grant Would Likely Be Inadequate in Some States**
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> The block grant bills would limit the funding that a state could use to administer the voucher program to 10 percent of the state's total funding. For many states, this amount would be lower than the amount that local housing agencies in the state currently receive to administer the program. Yet states would have to take on added administrative responsibilities. In addition to undertaking (either directly or through contracts) the administrative activities that state and local housing agencies currently carry out — such as maintaining waiting lists, determining eligibility and rent contributions, conducting housing inspections, ensuring that rents are reasonable, and reporting data to HUD — states would be required to take on many additional functions that currently are the responsibility of HUD, such as setting maximum subsidy limits and monitoring the expenditure of funds.
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> While the flexibility provided under the block grant might enable some states to reduce costs for some components of program administration, it is likely that the administrative funds that would be provided under the block grant would be insufficient to cover costs for many states. This would be particularly likely to be a problem in states with large rural areas, where state housing agency staff would need to travel long distances to conduct inspections and carry out other program functions. States with relatively low housing costs, many of which are located in the Midwest and South, also may have difficulty covering administrative costs that are limited to 10 percent of overall program funding; wage levels and other administrative costs vary much less across geographic areas than housing costs do. States that are unable to administer the program with the funds available under the 10 percent cap would be required to choose between contributing their own funds and cutting administrative costs by scaling back services — for example, by prohibiting the use of vouchers in some rural areas or reducing staff time spent on bringing new owners into the program.

There would be substantial pressure on Congress to freeze or cut funding for a housing voucher block grant in coming years. The budget resolution adopted by Congress in April 2003 calls for $168 billion in reductions in domestic discretionary programs (the category of the budget that includes the housing voucher program) below the budget baseline, that is, below the 2003 level adjusted for inflation, over the period from 2003 to 2013. The budget resolution does not specify which programs will be cut, but reductions of this magnitude can only be accomplished by cutting funding for a wide range of programs. To some extent, the block grant proposal may have been motivated by recognition that it would be considerably easier to apply a portion of these cuts to the voucher program if it were converted to a block grant than if the existing structure were retained.

If Assistance for Low-Income Families is Reduced, Some States and Sub-State Areas Would Bear a Disproportionate Share of the Cuts

If funding for a block grant fails to keep pace with program needs, states would face an unattractive choice between imposing cuts and contributing their own resources to maintain voucher assistance at its current level. States could cut assistance in three ways:

- by reducing the number of vouchers;
- by shifting vouchers to higher-income families (which require smaller subsidies to afford housing); or
- by shifting rental burdens to voucher recipients by requiring them to pay more than 30 percent of income for rent or reducing the total amount of rent that a voucher could cover (and thereby making fewer housing units accessible to voucher families).

Some states would likely be forced to impose deeper cuts in assistance than others. The block grant bills include a provision that requires that states receive at least the same level of funding that they received in the previous year or, if the overall level of funding for the block grant is reduced, at least the same proportion of the total amount of funding as they received in the previous year. These provisions, however, would provide only limited protection for states.

First, this minimum level or proportion of funding that a state would receive would be adjusted downward or upward by HUD based on its assessment of a state's performance and relative changes in each state's housing costs. (It should be emphasized that this provision does *not* create a link between housing costs and the overall national level of funding for the voucher program.) As a result, states that are found to have low performance could face greater erosion of funding than others and could experience larger cuts. In many cases, the performance criteria listed in the bills would reward states that adopt certain policy priorities and penalize states that adopt other priorities, rather than simply rewarding or penalizing states based on how effectively they administer the program. For example, states that improve conditions for elderly and disabled people (rather than for all eligible families) or that emphasize homeownership assistance (which tends to provide assistance to higher income families) over rental assistance would receive higher performance ratings and funding allocations than other states.

Moreover, states in which the cost of providing voucher assistance increases more rapidly than the cost of housing would experience disproportionate cuts relative to their needs. Voucher costs are affected by various factors — such as the cost of housing units at the low end of the price scale and the incomes of voucher holders — that would not be fully reflected in a general housing cost index. For example, if a regional recession caused the incomes of many families with vouchers to decline in some states, the average cost of providing vouchers to families in those states would rise (because the families would be able to afford to pay a smaller proportion of the rent). The share of voucher funding provided to such states, however, would not be adjusted accordingly.

In addition, the voucher block grant would eliminate existing federal allocations of vouchers to local housing agencies and other sub-state jurisdictions, with the result that state governments would be free to shift resources from one part of a state to another. A state could choose to shield regions with greater influence in the state capital from reductions in assistance and implement larger cuts in less-favored regions. This could be accomplished by shifting vouchers from one part of a state to another or providing more ample administrative resources to certain parts of the state.

In addition, states could adjust subsidy amounts in a manner that benefits certain parts of the state over others. The block grant would eliminate existing federal rules that relate voucher funding in each metropolitan area or rural county to actual rental costs in those areas and that adjust funding levels from year to year based on changes in local housing costs. Housing costs often rise more rapidly in one part of a state than in another. If a state applied a change in its level of federal funding equally across the state, families in areas that had experienced greater rental cost increases would be hurt disproportionately. Similarly, if a state received flat funding from HUD and as a result made no change in subsidy levels throughout the state, families receiving vouchers in areas with larger cost increases would lose more purchasing power.

Number of Vouchers Would Likely Be Cut

One way in which states could respond to the likely erosion of voucher funding would be by reducing the number of families that their voucher programs serve. The block grant bills contain a provision that requires states to continue to serve at least as many families under the block grant as they do on average during the 120-day period ending in September 2004. This requirement has little meaning, however, because it is "subject to availability of appropriations." In other words, a state would be permitted to reduce the number of families it serves in response to erosion of funding over time.[4] Moreover, even this limited requirement ends in 2009. After that year, there would be no floor on the number of families that states could serve.

The inclusion in the block grant bills of a performance standard that rewards states that serve more families may discourage states from reducing the number of families assisted, although the impact of this standard would depend on its implementation and on the extent to which block grant funding is linked to performance. Regardless, it is likely that at least some states would respond to dwindling funding by reducing the number of vouchers they provide.

The reduction in the number of housing vouchers that is likely to occur under the block grant would come at a time when the need for voucher assistance is great. In most locations, there are long and growing waiting lists for the voucher program. A HUD analysis of Census data shows that in 1999 (the last year for which this analysis is available), nearly five million low-income households that did not receive housing assistance had what HUD terms "worst case housing needs," which means they either paid more than half of their income for rent and utilities or lived in severely substandard rental housing. Most of the low-income families (as distinguished from the elderly and disabled individuals) with "worst case" housing needs are low-income *working* families. In addition, since housing costs have increased faster than

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[4] A separate provision would provide "grandfathering" protection for families that are receiving assistance at the time the bill is enacted. Such families would be entitled to continued assistance under the provisions of the existing voucher program through 2009. This provision would not prevent states from cutting the overall number of vouchers. In 1999, HUD estimated that turnover in the tenant-based program was about 11 percent per year nationally, so the number of families with grandfather protection would decline rather rapidly over time. (See note 1 above: *Housing Choice Voucher Location Patterns* Appendix C-4, page 110.) Moreover, even the grandfathering requirement is subject to appropriations — although states would be required to impose other cuts, such as reduction in the amount of the subsidy, before actually cutting families with grandfather protection from the program.

incomes since 1999, the housing affordability problem is likely to be even more severe today than it was in 1999, the year these Census data cover.

Large Number of Vouchers Would Likely Be Eliminated in the First Year in Which the Block Grant is in Effect

In addition to the probable loss of vouchers due to erosion of funding over time, there is a strong possibility that there would be a large reduction in the number of vouchers available in fiscal year 2005, the first year the proposed block grant would be in effect. If, as appears likely, the overall funding level for the voucher program in fiscal year 2005 were set at the funding level provided to state and local housing agencies during fiscal year 2004 (or is increased by an amount equal to or below the amount needed to cover the annual increase in per-voucher costs), tens of thousands of vouchers would immediately be eliminated. This is because voucher funding in 2004 will only cover vouchers actually in use during 2004. Each year, some vouchers are left unused, often because families that are issued vouchers are not able to find housing where they can use their voucher.[5]

HUD estimates that at least four percent of currently authorized vouchers, or about 80,000 vouchers, will be unused in fiscal year 2004. If the block grant were enacted, local housing agencies that are about to lose administration of the voucher program to their state would likely be less responsive to performance incentives that currently encourage them to use as many of their vouchers as possible. Furthermore, landlords would probably be reluctant to enter into new voucher contracts (as is required when a tenant rents an apartment with a voucher) with local agencies that are about to cease administering the program. As a result, the number of *unused* vouchers would likely increase beyond the level anticipated by HUD. Such vouchers would likely be eliminated under the block grant. HUD reports show that the proportion of vouchers in use has been increasing in recent years,[6] and the current system makes funding available to agencies to use all authorized vouchers if they are able to do so. It is probable that a significant number of the vouchers that would be eliminated under the block grant would otherwise have been used to serve families in fiscal year 2005 and subsequent years.

[5] Even if there were a substantial increase in funding in fiscal year 2005, each state would receive the same proportion of the total funding as agencies in that state received in fiscal year 2004. States with the largest proportion of unused voucher funds in 2004 would suffer the largest permanent loss of voucher funding.

[6] A recent study commissioned by HUD to gain a better understanding of the reasons for the differences among PHAs in voucher utilization found that utilization rates were increasing rapidly during calendar years 2001 and 2002. (Meryl Finkel, Jill Khadduri, Victoria Main, Linda Pistilli, Claudia Solari, Kristin Winkel, and Michelle Wood, *Costs and Utilization in the Housing Choice Voucher Program,* Abt Associates 2002, unpublished report.) In addition, HUD's Fiscal Year 2002 Performance and Accountability Report states that voucher utilization reached 94 percent that year, and the Budget Justifications submitted by HUD to Congress in February 2003 indicate that HUD anticipates continued improvement in voucher utilization, to 95 percent and 96 percent respectively, in fiscal years 2003 and 2004. (See HUD's Budget Justifications, A-15, and OMB Program Assessment Rating Tool for Housing Vouchers, p. 5.)

Vouchers Could Be Shifted from Poorer Families to Those with Higher Incomes

A second way in which states could reduce expenditures if funding fails to keep pace with need would be by shifting vouchers to families with higher incomes. Because vouchers make up the difference between the rent for a modestly priced apartment and 30 percent of a tenant's income, poorer families receive larger average subsidies and are therefore more expensive to serve. Shifting vouchers to higher-income families could be attractive to states, as it would reduce costs per voucher, making it possible to spread inadequate funding among more families. Moreover, to the extent that the block grant's performance standards encourage states to serve as many families as possible regardless of income, states would feel pressure to shift vouchers to higher-income families, as doing so would enable the number of families assisted to be larger than it otherwise would be. Furthermore, in some states there also would likely be political pressure to shift vouchers to families with more income, because programs that serve moderate-income families are often more popular in states than programs that serve poorer families.

Without vouchers, however, the poorest households are far more likely than other households to live in substandard housing or to pay more than half of their income for rent. Because vouchers allow recipients to live in buildings of their choice, this form of assistance — unlike public housing and other programs that subsidize families living in a particular development — can be targeted on the neediest families without concentrating those families in certain locations.

Under the block grant, states also would have substantially greater flexibility to divert vouchers to higher income families. The bills would weaken an existing rule that requires housing agencies to ensure that at least 75 percent of the families newly admitted to the voucher program each year are what HUD defines as "extremely low-income families" — that is, families with incomes below 30 percent of the local area median income (nationally roughly equivalent to the poverty line).

Currently, housing agencies may obtain HUD approval to admit fewer extremely low-income families, but only if the agencies provide substantial evidence demonstrating that meeting the targeting requirement would be impossible and that reducing the requirement would enable the agency to serve other families living in severely substandard housing or facing very high rent burdens. Under the block grant bills, to receive waivers of the targeting requirement, states would be required to show only that they cannot reasonably implement the targeting requirement.[7] It appears that this criterion could be met even if the only impediment to a state meeting the targeting requirement was inadequate funding or a competing policy priority, such as a preference for families likely to become homeowners. The HUD Secretary would have complete authority to approve such waivers, with no requirement for public participation.[8]

[7] The Senate bill requires a state to show that it cannot "reasonably" meet the 75 percent targeting requirement in a particular year (see section 7(a)(2)(B)), but gives no indication of what evidence would be needed to make such a showing. The House bill requires proof that the 75 percent requirement "cannot be met," but says nothing about what types of reasons may be adequate proof (section 6(a)(2)).

Waivers could be used to reduce the proportion of families admitted that have extremely low-incomes to 55 percent.

The bills also would give HUD the authority to raise income eligibility limits for elderly or disabled households to *any* level.[9] Up to 25 percent of all vouchers — and up to 45 percent of vouchers in states that have received waivers of the targeting requirement — could be provided to elderly and disabled households with incomes exceeding the voucher program's income eligibility limit. That limit is already fairly high — 80 percent of the local area median income, which on average across the nation equals $31,640 for a one-person household and $36,160 for a couple. Households with incomes above these levels have substantially less need for housing assistance than households with lower incomes. Moreover, substantial numbers of elderly households with annual incomes above these income levels have substantial assets that they can and do draw upon, further lessening their need for housing subsidies.

Rental Burdens for Low-Income Families Would Likely Rise

A third option that states could use to implement cuts and lower costs would be to shift rental burdens to low-income families. Under the block grant, this could be accomplished both by reducing the voucher "payment standard" (the maximum amount of rent that a voucher can cover) and by increasing the rental payments that families with vouchers are required to make above the current level of 30 percent of family income.

Currently housing agencies must, with limited exceptions, set the voucher "payment standard" within a range that is based on the area's "fair market rent." The fair market rent is the amount required to rent a modestly-priced apartment in a local area, as estimated by HUD based on local housing market data. [10] Under the block grant proposals, states would be able to set the

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[8] Currently, a PHA wishing to reduce the proportion of extremely low-income families admitted to the voucher program has to include such a proposal and its justification in its annual plan, which is subject to public and resident comment as well as to HUD approval. The block grant bills would eliminate the requirement for such a plan for the voucher program. Instead, states would have to include quantifiable objectives for certain performance criteria for the voucher program in the consolidated plan that they now submit to receive other block grant funds from HUD, but none of those criteria address the income of families to be served. As a result, the consolidated plan would not need to describe proposals to secure waivers from the targeting requirements and no public participation requirements would apply to the decision to waive the targeting requirement.

[9] HUD would have the authority to set higher income eligibility limits for elderly and disabled households by regulation. If HUD issued such a regulations, states could serve elderly or disabled households with incomes up to the new eligibility limits without requesting a waiver.

[10] Under current law, HUD must approve any payment standard set below 90 percent of the FMR and can do so only if it will not result in a significant percentage of families paying more than 30 percent of their income for rent. See Section 8(o)(1)(E)(i) of the U.S. Housing Act, 42 U.S.C. 1437f(o)(1)(E)(i). HUD's regulations (at 24 CFR 982.503(d)) set an objective standard to guide HUD's determination: a lower payment standard may not be approved if it would result in more than 40 percent of families in the voucher program paying more than 30 percent of their income for rent. In addition, payment standards must be set high enough to allow extremely low-income families to find units that will not cost more than 40 percent of their income; otherwise, agencies would not be able to meet the current targeting requirements.

payment standard at any level they choose that is "reasonable and appropriate." States would have no incentive or obligation to set payment standards at an adequate level. Indeed, the performance standard that would reward states for serving a greater number of families may well pressure states to reduce payment standards in the same manner in which it may pressure them to serve families with higher incomes; low payment standards would offer another opportunity to spread dwindling resources among more families. Furthermore, it appears that states could set different payment standards for rental units than for homeownership units. As a result, states could provide larger subsidies to higher income families to enable them to meet the payment ratios established by mortgage lenders while at the same time reducing payment standards for the generally lower-income families that must rely on rental housing.

Reducing payment standards would have the effect of shifting rental burdens on to low-income families. States would be prohibited from requiring families to pay more than 30 percent of their income for housing at the time they initially rent a unit, but this requirement would apply only to families that find units with rents at or below the payment standard. If a state lowered the payment standard to a level that was insufficient to rent most housing units in an area and families "chose" to lease units that charged rents above the payment standard, families could experience rent burdens well above 30 percent of their incomes. (As is discussed below, lowering the payment standards also would have the effect of limiting the number of housing units available to families with vouchers.)

Furthermore, states would be permitted under the block grant proposals to require families to pay more than 30 percent of their income in rent after the expiration of a family's initial lease period. As a result, states would be able to increase the amount of rent that low-income families must pay even without reducing the payment standard. For most families, the protection against rent increases would last for a year (the usual lease term under the current program) or less.

The impact of the 30-percent limit on rent burdens would be further weakened by changes in the definition of income used to determine a family's rent obligation. Currently, housing agencies cannot require that families with vouchers pay more than 30 percent of the family's "adjusted income" for rent. Adjusted incomes are calculated by subtracting several deductions from the family's gross income; these deductions have the effect of providing higher subsidies to elderly and disabled households with high medical expenses, to working families with child care expenses, and to larger families. The block grant bills would prohibit states from requiring families to pay more than 30 percent of *gross* income, thereby allowing states to require larger rent payments from virtually all new participants. The block grant bills would also allow each state to decide how a family's gross income will be determined. A state could, for example, include in its calculation of a family's income sources of income that must be excluded under current law, such as foster care payments and earnings of minors in the family. Including income from such sources would further increase the size of the rent payments that could be required from some new participants.

In addition, states would be required to impose minimum monthly payments of at least $50 on each new participant in the voucher program, including elderly and disabled individuals, even if this rent is above 30 percent of the family's gross income. Today, state and local housing agencies have the option to impose minimum rents of up to $50, but only about 40 percent of the agencies that administer the voucher program charge a minimum rent of $50. Sixty percent of housing agencies have concluded that a $50 minimum rent would cause undue hardship and either charge no minimum rent or charge a minimum rent of less than $50. Furthermore, under current rules, all households facing certain hardships, such as loss of a job or a delay in approval of disability benefits for a disabled individual, are exempt from the minimum rent requirement. Under the block grant bills, those hardship provisions are dropped, although states would be allowed to grant case-by-case exceptions to the minimum rent requirement.[11]

Block Grant Would Likely Undermine Housing Choice Currently Provided by Vouchers

One of the principal advantages of the current housing voucher program is that it allows voucher holders to move to areas of their choice, including neighborhoods with more job opportunities, lower crime, or better schools. This market-based approach was adopted during the Nixon and Reagan administrations as an alternative to public housing and other programs that tie housing assistance to a particular building and, as a result, concentrate poor people in certain locations. Research indicates that by enabling families to move to lower-poverty neighborhoods, vouchers may reduce welfare receipt and have positive effects on employment, earnings, educational outcomes, and child well-being.[12] A voucher block grant could undermine housing choice in three ways.

First, for the reasons described above, it is likely that if a block grant were enacted, a number of states would reduce voucher payment standards. Lower payment standards would reduce the total number of units that are affordable to poor families with vouchers. Furthermore, because rents often vary substantially from one neighborhood to another, lower payment standards would effectively limit the geographic areas where poor families can use their vouchers. In many cases, the areas that would become unaffordable to poor voucher holders would be those with better quality schools, lower crime, and more job opportunities. Under the current program, agencies are encouraged by performance standards and funding rules to set payment standards that are adequate to make modest apartments in a range of neighborhoods broadly accessible to voucher holders. The block grant bills would eliminate these standards and rules.

Second, a block grant would eliminate the existing rules that cap at 20 percent the proportion of vouchers that housing agencies can require to be used at designated housing projects. Allowing a limited number of vouchers to be "project-based" in this manner has

[11] The Administration's budget request for fiscal year 2004 also includes a proposal to require all housing agencies to impose minimum rents of no less than $50 a month. On May 9, the Administration submitted an amendment to the budget request which would omit the option to set a minimum rent above $50 per month. Unlike the block grant bills, the proposal in the budget request would exempt all elderly and disabled families from the minimum rents.

[12] For a summary of this research, see Barbara Sard and Margy Waller, *Housing Strategies to Strengthen Welfare Policy and Support Working Families*, Center on Budget and Policy Priorities and Brookings Institution Center on Urban and Metropolitan Policy, 2002.

advantages because it ensures that there are units available where these vouchers can be used, even in tight housing markets, and because it allows vouchers to be used to support production of affordable housing by guaranteeing developers a source of rental revenue they can use to repay debt incurred during construction. Eliminating the cap on project basing, however, would allow states to project-base most or all of their vouchers, a step that would eliminate the choice-based nature of the voucher program and could cause families with vouchers to become concentrated in particular locations. In some states, there would be substantial political pressure to use project-basing to direct vouchers to high-poverty neighborhoods with predominantly minority populations, rather than allow families to use vouchers in the neighborhoods of their choice.

Third, the bills would allow states to restrict housing choice by barring the use of vouchers in certain areas. Residents who resent the presence of voucher holders in their neighborhood could ask their state agency to place a moratorium on the use of additional vouchers in the area. Fair housing laws would prohibit such a moratorium if it could be proven to be intended to keep members of racial or ethnic minorities from living in an area, but it would often be difficult to demonstrate that a geographic restriction was motivated by unlawful discrimination, particularly if proponents offered some other public policy rationale to justify it.

Unpredictable Funding Would Disrupt Voucher Program and Deter Landlords and Lenders from Participating

The housing voucher program depends for its effectiveness on the willingness of property owners to rent units to voucher-holders. Under both the current system and the proposed block grant, landlords must meet certain requirements, such as housing quality inspections, that are not required of owners in the private market. The primary incentive for landlords to participate in the program is the consistency of rental revenues from vouchers. The mere possibility that voucher commitments might be withdrawn may deter some landlords from participating. That, in turn, could make it more difficult for low-income families with vouchers to find landlords who will accept vouchers and consequently reduce the number of families who are able to use their vouchers.

In a letter sent in February 2003, seven national associations representing apartment owners expressed strong concerns that a block grant would jeopardize the reliability of voucher funding and consequently "have a chilling impact upon market participation in the program." The voucher block grant bills that have now been introduced, which eliminate the federal commitment to maintain voucher funding at a level sufficient to meet the program's needs, bear out these concerns.

The uncertainty of block grant funding could have an even greater impact on the use of vouchers to support homeownership. Vouchers can only be used to support home mortgages to the extent that mortgage lenders are confident that funding will continue to be available for the length of the mortgage. It would be more difficult for lenders to have a strong degree of confidence under the block grant. The block grant would offer only very limited protections for families participating in this program. States would be permitted to reduce voucher subsidies to such families if funding is inadequate and could terminate their assistance entirely beginning in 2009.[13]

Rationale for Block Grant is Unpersuasive

The Administration and other proponents of the block grant proposal have failed to provide a compelling justification for the radical change they have proposed. Proponents have pointed to a number of goals that they argue would be addressed by the voucher block grant. It has been argued that a block grant would allow states to reallocate unused vouchers to help ensure that more of the vouchers are used, would improve coordination with the Temporary Assistance to Needy Families (TANF) welfare program, would simplify program administration by reducing the number of agencies administering vouchers, and would provide housing agencies with greater flexibility to respond to local needs. Several of these goals, however, would actually be impeded in significant ways if the block grant proposal were enacted. Moreover, in every case, the goals could be advanced without the radical transformation the Administration has proposed.

- **The block grant would eliminate vouchers that could have been reallocated under the current system.** It is true that under the proposed block grant, states would be able to reallocate unused vouchers and voucher funds from one part of the state to another *during* a fiscal year. Under a policy established in 2001, however, HUD already has the authority to recover vouchers from housing agencies that cannot use them and reallocate the vouchers to agencies that can use them promptly to serve additional families. So far, HUD has failed to implement this policy fully — reportedly due to administrative snafus — and has only reallocated a small number of vouchers, but if HUD fully implements the policy in the future the number of vouchers reallocated will grow. Under the block grant, by contrast, reallocation of unused vouchers would be made more difficult. As noted above, states would probably *not* receive funding under the block grant for vouchers that are not in use in fiscal year 2004. If this were the case, these vouchers would be eliminated altogether rather than reallocated. In addition, after the initial year, a state's allocation of block grant funds would be reduced by any funds it does not use in the prior fiscal year, so funds left unused in a given year would in effect be taken away from the state and the state would not have the ability to reallocate them.
- **Block grant funding structure would place constraints on local flexibility.** The block grant would provide greater flexibility to states than is available to state

[13] The Senate bill includes a provision that would amend the current voucher statute to specify that the statutory provisions concerning the use of vouchers for homeownership (and for project-based assistance) would no longer apply to vouchers funded under the block grant after fiscal year 2009. For example, restrictions on the ability of housing agencies to reduce or terminate subsidies for families that are using their vouchers to make mortgage payments or cover other homeownership costs would no longer apply. The House bill is somewhat ambiguous on these matters, but it appears to require that the current provisions of the voucher statute concerning homeownership and project-based assistance would continue to apply to families already in these programs at the time of transition to the block grant. Such protection would not be provided to families entering the program in the future.

and local agencies under the current system in a number of areas of program administration. In other areas, however, states would experience financial costs under a block grant for exercising options that already are available to state and local agencies and for which the cost currently is borne by the federal government. Examples of actions that could carry added costs for states under a block grant include: increasing maximum voucher payments to reflect increases in local rents, and targeting vouchers on groups — such as the homeless or families moving from welfare-to-work — that are more expensive to serve. Currently, housing agencies receive federal funding based on the actual cost of vouchers, so they pay no financial penalty for taking actions that raise their costs per voucher but benefit their community. Under the block grant, states would need to pay for such increases in costs by contributing their own resources to the program or by instituting offsetting cuts in other aspects of the voucher program. As a result, the amount of real flexibility available to housing agencies to take these steps (and other steps that raise per-voucher costs to make the program operate more effectively) would be reduced.

- **The block grant would undercut the components of the voucher program that have facilitated coordination with TANF without making alternative provisions for encouraging coordination.** The argument that a voucher block grant would improve coordination of services for the 22 percent of voucher holders who receive welfare benefits (13 percent rely primarily on income from welfare) is based on the premise that coordination would be stronger if both programs were administered by the states. This may be true to an extent, but many state-administered voucher programs currently have little or no coordination with TANF while some locally-administered voucher programs have excellent coordination with TANF. None of the performance criteria or planning requirements in the block grant bills directly encourage coordination with state TANF programs.

  At the same time, the block grant would undermine coordination with TANF by eliminating the federal commitment to two initiatives that have facilitated coordination in recent years: the welfare-to-work voucher program and the Family Self-Sufficiency program (FSS). The welfare-to-work voucher program provides new housing vouchers for current and former welfare recipients for whom lack of housing assistance is a barrier to getting or keeping a job. (For additional information see http://www.cbpp.org/8-28-02hous.htm.) The FSS program gives recipients of housing assistance an incentive to increase their earnings and build assets by providing escrow accounts into which the housing agency deposits the increased rental charges that a family pays as its earnings rise. FSS also provides case management services to help participants prepare for and obtain employment. (For additional information on FSS, see http://www.cbpp.org/4-12-01hous.htm.)

Under the block grant, there would be no requirement that states continue the welfare-to-work voucher program or the FSS program for current participants.[14] States could elect to use a portion of their administrative funds to pay for FSS case managers and could continue to allow working families enrolled in FSS that increase their earnings to contribute to a savings account in lieu of increased rental payments, but they would receive no additional federal funds to support such efforts as they do today. Since it is likely that funding under the block grant would fail to keep pace with program needs and that, in at least some states, the administrative funds the state would receive would be inadequate to cover the costs of administering the voucher program (see box on page 5), many states could choose to discontinue the FSS program.

- **Block grant could increase rather than reduce program complexity.** Currently, basic rules of the voucher program are uniform across the country, while local agencies have the option to vary certain policies that are best adapted to local circumstances. There are many important advantages to such uniformity and predictability. For example, large national companies such as Fannie Mae and Freddie Mac have been willing to develop underwriting guidelines that can be relied on by lenders throughout the country that wish to make loans to families participating in the Section 8 homeownership program. Without substantial uniformity in the applicable rules, it would likely be more difficult for lenders to sell these loans on the secondary mortgage market, and fewer lenders would be willing to make loans that they would have to continue to hold. This could reduce the potential effectiveness of the program. Similar national rules also make it easier today for some large apartment owners to participate in the program. Fewer large companies may be willing to make their units available to families with vouchers in the future if the companies have to become familiar with different rules in each state in which they operate.

Eliminating uniform national rules such as housing quality standards also could increase program complexity within states. The block grant bills would substitute state and local housing codes, where they exist, in place of federal housing quality standards. This would mean that units in each county, city or town could be subject to different requirements concerning housing conditions, since many states have a patchwork of local and state codes. Inspectors could have a more difficult job than they currently do, as they would have to learn the requirements

[14] The bills specify that families receiving voucher assistance at the time of the transition to the block grant would continue to receive assistance "subject to the terms and conditions" of Section 8 of the U.S. Housing Act, (see note 4 above) but neither the welfare-to-work voucher program nor the FSS program is authorized under Section 8. The welfare-to-work voucher program was established by the fiscal year 1999 appropriations act; no other statute governs the program. The FSS program is contained in Section 23 of the U.S. Housing Act (42 U.S.C. 1437u); it applies to public housing residents as well as voucher families. Even if the grandfathering requirement were to be construed to require the continuation of these programs for current participants, states would be under no obligation to continue to serve families making the transition from welfare to work when current families leave the program and these special vouchers become available for reissuance. Nor would states be obligated to enroll any additional families in FSS.

that apply in each area. Where the state or local codes that apply to existing housing are substantially weaker than current federal rules (including lead paint rules), families' safety could be impaired.

- **The number of administering agencies could be reduced under the existing funding structure.** There is no inherent link between the change in the voucher funding system that the block grant bills would make and a reduction in the number of agencies administering the voucher program. Congress can reduce the number of administering agencies under the existing system if it chooses to do so. For example, administration could be consolidated at the metropolitan or regional level without radical changes in the basic funding structure. Conversely, because a state could choose to allow all local agencies to continue to administer the voucher program under the block grant and local agencies likely would seek to persuade their states to do so, conversion to a block grant funding structure would not necessarily reduce the number of administering agencies significantly. To the contrary, it could merely add another layer of bureaucracy without accomplishing meaningful consolidation.

Conclusion

The conversion of the housing voucher program to a block grant represents a fundamental change in a program that provides assistance to approximately two million low-income families and elderly and disabled individuals. It would be likely to have a number of adverse consequences, including the continual erosion of voucher funding, the diversion of assistance away from the families that need it most, and a weakening of the principle of housing choice that has been a cornerstone of the voucher program's success.

The record of the housing voucher program does not demonstrate a need for the type of change the Administration has proposed. To the contrary, research has demonstrated that the program is cost-effective and suggests that it improves education, health, and employment outcomes for the families it assists.

The Administration has pointed to a number of goals that it argues would be advanced by the voucher block grant. In every case, however, these goals could be addressed without the radical transformation the Administration has proposed. The largest changes proposed by the Administration — the termination of the link between voucher funding and housing costs and the withdrawal from the federal commitment to consistent support for existing vouchers — are essentially unrelated to the goals the Administration has cited.

Some aspects of the voucher program's performance could be improved. But such improvement can best be achieved through measured reforms tailored to meet specific challenges, rather than by radically altering the characteristics of the voucher program that have underpinned its success.

Testimony of Conrad Egan
President and CEO of the National Housing Conference
Before the Subcommittee on Housing and Community Opportunity

June 17, 2003

Thank you, Mr. Chairman, for the opportunity to appear before this Subcommittee today, principally as the former Executive Director of the Millennial Housing Commission.

In December of 2000, the Congress of the United States, pursuant to legislation introduced by Representative James Walsh, established the bipartisan Millennial Housing Commission (MHC). Commission members were appointed by the chairs and ranking minority members of the House and Senate Appropriations Committees and Subcommittees for VA, HUD and Independent Agencies; the Senate Banking, Housing and Urban Affairs Committee and its Housing and Transportation Subcommittee; and the House Financial Services Committee and its Housing and Community Opportunity Subcommittee. The Commission was charged with examining, analyzing, and exploring:

"(1) the importance of housing, particularly affordable housing which includes housing for the elderly, to the infrastructure of the United States;

"(2) the various possible methods for increasing the role of the private sector in providing affordable housing in the United States, including the effectiveness and efficiency of such methods; and

"(3) whether the existing programs of the Department of Housing and Urban Development work in conjunction with one another to provide better housing opportunities for families, neighborhoods, and communities, and how such programs can be improved with respect to such purpose."

The Twenty-two bi-partisan Commissioners presented the Commission's report to Congress on May 30, 2002. The first paragraph of the report's executive summary states,

Housing is most Americans' largest expense. Decent and affordable housing has a demonstrable impact on family stability and the life outcomes of children. Decent housing is an indispensable building block of healthy neighborhoods, and thus shapes the quality of community life. In addition, the housing sector provides a major stimulus to the nation's economy, consistently generating more than one-fifth of gross domestic product. Better housing can lead to better outcomes for individuals, communities, and American society as a whole. In short, housing matters.

Pursuant to the third objective stated above, The Commission examined many of HUD's programs, including the Section 8 Housing Assistance program. Presented below are excerpts from the section of the Commission's report that deals with that program.

Expand and strengthen the housing choice voucher program to improve the access of extremely low-income households to the private housing stock.

Since the 1970s, the housing voucher program has effectively assisted millions of low-income renters—particularly extremely low-income households who are most likely to have severe affordability problems and/or live in inadequate housing. The voucher program now serves 1.6 million households, including several special-needs populations such as persons with physical or mental illness and families making the transition from welfare to work. In certain circumstances, vouchers can also be used to help families become homeowners.

Because the program is flexible, cost-effective, and successful in its mission, the MHC believes housing vouchers should continue to be the linchpin of a national policy providing very low-income renters access to the privately owned housing stock.

The MHC recommends appropriation of additional funds for substantial annual increments of vouchers to address the housing problems of extremely low- and very low-income families who lack access to other housing assistance. The MHC also supports expanded use of vouchers for homeownership to help low-income families build assets. Finally, the MHC recommends specific refinements that would increase the program's efficiency and effectiveness.

1. Improve utilization and success rates.

HUD needs to diagnose the reasons for the limited success of the voucher program at some PHAs and offer targeted technical assistance. Voucher units should be reallocated from low-utilization PHAs to entities serving the same geographic area and households. HUD could also make two simple administrative changes that would improve the voucher system in tight rental markets: (1) expand the resources devoted to rent surveys so that published Fair Market Rents do not lag actual rents, and (2) quickly approve exception payment standards when census data demonstrate that average area rents are at the level of the exception sought (with some appropriate upper limit).

2. Increase landlord participation.

HUD and PHAs should develop consensus standards for shortening the inspection and lease approval process and for providing better service to landlords. These standards should be based on a review of PHA performance, feedback from both landlords and voucher holders, and review of all standards that affect landlord participation, such as lease approvals, inspections, and voucher transfer payments. The MHC also recommends that HUD provide technical assistance to PHAs for improving landlord participation, disseminate best practices information to program administrators, experiment with giving PHAs greater flexibility in applying the Housing Quality Standards (HQS) to attract owners to the program, and change the cap on the family rent contribution for newly rented voucher units to 40 percent of gross (rather than adjusted) income.

3. Link vouchers to housing production programs.

The MHC recommends that HUD strengthen and enforce the requirement that owners of housing produced under federally funded programs accept households with vouchers. In the interests of promoting mixed-income housing, however, the MHC also recommends that owners of developments of 50 or more units be able to limit the share of voucher households to 20 percent or 30 percent, subject to local market conditions. Extremely low-income households would receive special vouchers for units produced under capital subsidy programs such as the LIHTC, HOME, CDBG, and the new mixed-income, multifamily rental production program proposed elsewhere in this report. Payment standards for units served by these "thrifty production vouchers" would equal the operating cost, rather than being based on the Fair Market Rent.

4. Link vouchers to work opportunity and self-sufficiency initiatives.

While the current voucher program provides incentives for tenants to move to neighborhoods with better opportunities and good schools, it does not make mobility a primary goal. But housing vouchers can play a larger role in helping welfare-dependent families and marginally employed workers improve their job stability and earnings potential. Indeed, vouchers are more effective than any other kind of housing assistance in improving recipients' opportunities for employment, savings, and long-term self-sufficiency.

5. Link vouchers to non-housing programs.

HUD should allow other agencies to compete for special allocations of vouchers for certain populations, but require that PHAs (or regional consortia of PHAs) perform key operations such as housing inspections, rent-setting, and payments to landlords. HUD should monitor performance of these functions as part of the PHA's overall voucher program. Housing vouchers can also work effectively with other types of assistance programs for special-needs populations. In particular, as states expand community-based housing options, they are likely to look increasingly to vouchers to provide permanent housing supports for persons with disabilities. This will require establishing stronger partnerships between PHAs and other providers of supportive services, and permitting state agencies and nonprofits to administer special-purpose vouchers.

6. Allow for the flexible use of Section 8 project-based units.

In addition to expanding tenant-based housing choice vouchers, the Commission proposes certain improvements to the project-based Section 8 program. More than 800,000 units of project-based Section 8 units are still in the federally assisted stock. While most are in good condition, some are obsolete, deteriorating, and located in areas where assisted housing is highly concentrated. Others are at risk of opt out from their Section 8 contracts. Current HUD policy does not appear to allow the transfer of subsidies from deteriorated properties to other locations to create replacement housing. It would be a better use of federal funds if, with local government support, some or all of the project-based Section 8 and other subsidies could be transferred to other locations as part of mixed-income housing developments. This flexibility would also provide new preservation options for property owners who are considering opting out of their contracts. The Commission therefore recommends that the administrators of these project-based contracts be permitted and encouraged to allow transfer of assisted units to aid in the preservation of affordable units in high-quality properties and to improve income diversity. It also recommends that Congress remove any statutory obstacles to using transferred project-based Section 8 subsidies for replacement housing.

In conclusion, let me summarize the Commission's position on the Section 8 Housing Assistance Program thusly. First, the Program works well in its current form. Second, it could be improved by implementing the above recommendations. Third, substantial annual increments of additional funds should be appropriated to better address the housing problems of extremely and very low income families and to increase opportunities for homeownership.

Testimony of Howard Husock

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City Journal

Manhattan Institute for Policy Research

Committee on Financial Services

Subcommittee on Housing and Community Opportunity

June 17, 2003

The proposal to rename and restucture the Section 8 housing choice voucher program as Housing Assistance for Needy Families, or HANF, is among the most promising housing policy proposals in many years. Its promise lies in the potential it holds for considering housing policy not in a vacuum but in the context of domestic social policy more broadly—and thereby potentially encouraging long-term improvement in the life choices and prospects of those households whose rent is paid through a housing voucher.

HANF, of course, sounds a lot like TANF, the core financial public assistance program—and well it should. For, although largely unacknowledged in our recent focus on physical improvements to public housing, or the drive to increase the number of vouchers actually utilized, the fact of the matter is that there are demographic overlaps between the public assistance population and the housing assistance population. HUD reports that, among non-elderly, non-disabled heads of households receiving housing vouchers, 28 percent—or 219,000 households nationally—are also current recipients of TANF. And, like TANF recipients, they are predominantly comprised of single parent families. HUD reports that, of 1.01 million non-elderly, non-disabled Section 8 households, 783,000 are headed by single parents. Indeed, it is important to keep in mind in considering housing policy that, contrary to frequent alarms, we do not have a general housing affordability crisis in the U.S. Housing affordability, rather, is a problem mainly for the elderly poor, the disabled and, particularly, single-parent families with children. HUD has reported, indeed, that only 8 percent of voucher holders are two-parent families with children. Section 8 vouchers are, moreover, a means through which new single-parent families headed primarily by young mothers can be established. Indeed, between April 2002 and April 2003, 13, 649 new voucher holders, or six percent of all new admissions to the program, were under 21 years of age.

Such households are typically the focus of a wide range of social service interventions, from job training assistance to nutrition programs. It is common sense, then, for our housing voucher policy to be considered and administered in the same context as our larger social policy. It's a policy which can be summarized as one of short-term assistance meant to enable long-term self-improvement and self-reliance. To that might be added: discouraging those who are not economically ready from starting their own households with children in the first place. The centerpiece change of the HANF proposal—the creation of a housing voucher bloc grant and a shift in program administration from the local to the state level—may help us achieve these goals.

Local public housing authorities, which have historically administered Section 8, have a narrow mandate --to provide safe and sanitary housing. But, given the population of our subsidized housing programs, their focus must be broader—and aligned, specifically, with the goals which state governments are asked to implement, not just through TANF but other social programs, as well, including the Administration's current efforts to encourage marriage and two-parent families. A bloc grant and state administration of Section 8 can set the stage for a period of housing policy innovation—much as we saw state governments experiment, many successfully, with welfare-to-work programs in the early 1990s, even before the passage of TANF. Not that all states will move in new directions. It may be that some states will prefer the current approach—which, for instance, allows a housing subsidy to continue in perpetuity. But other jurisdictions may choose otherwise and seek to craft new housing policies in conjunction with broader state transitional assistance policies. Such policies could involve an overall time limit, a declining public share of rent payment over the fixed lifetime of a voucher, as well as social services such as financial counseling and household management. Such approaches are not merely hypothetical; they've been in use by the Charlotte, North Carolina housing authority since 1993 for some of its public housing tenants. State government, however, is more likely to have the capacity to undertake such policy innovations—and far more likely to be inclined to do so if those considering social policy broadly are also reviewing housing policy.

It is a mistake, in my view, to see the problems with Section 8 to date as lying mainly in the high turnback of unused appropriations, or in a need to convince more property owners to accept voucher holders. It's highly likely that most property owners in areas of reasonably strong rental demand will choose to avoid the complications that federal program participation brings with it. It is far more likely for voucher holders to be concentrated in areas of weaker demand—and indeed program data shows that, in 11 of 25 cities HUD surveyed, there are neighborhoods in which voucher holders constitute 25 percent or more of the population. The southern suburbs of Chicago, where Section 8 has been particularly controversial, have absorbed almost 58 percent of all the Cook County Housing Authority's vouchers. The majority of the voucher-holders who have moved from the District of Columbia to its suburbs have moved to Maryland's Prince George's County. In Philadelphia, 45 percent of voucher holders inhabit just two of the city's five major sections—South Philadelphia and Northeast Philadelphia—blue-collar areas unaccustomed to subsidized housing. If you visit the south suburbs of Chicago, such as Harvey, Illinois, you will meet local elected officials and residents —many of them African-American—who will express grave concern about this phenomenon, fearing the effects of such concentrations on the social fabric of their communities. As I have written in the Manhattan Institute publication City Journal, "in south suburban Chicago, with one of the highest concentrations of voucher holders in the country, middle-class African-American residents complain that they thought they'd left the ghetto behind—only to find that the federal government is subsidizing it to follow them. Vikkey Perez of Richton Park, Illinois, owner of Nubian Beauty Supply, fears that the small signs of disorder that have come with voucher tenants—the unmown lawns and shopping carts left in the street—could undermine the neighborhood. "Their life-style," she says, "doesn't blend with our suburban life-style." Kevin Moore, a hospital administrator and homeowner in nearby Hazelcrest, complains that children in voucher homes go unsupervised. Boom boxes play late at night. "I felt like I was back on the West Side," he says, referring to the Chicago ghetto where he grew up. "You have to remember how to act tough."

But if voucher concentration is probable, for economic reasons, it is important for program guidelines to encourage voucher beneficiaries to take steps to end or reduce their need for such assistance over time. In fact, such encouragement is just as important in areas where voucher concentrations are lower. Again, go to the south suburbs of Chicago and you will meet minority, first-time homeowners criticizing Section 8 in terms far stronger than I'd dream of using here for, in their view, supporting households which they see as having brought problems to their neighborhoods. We must take the greatest care, in my view, not to undermine the social and economic gains of minority homeowners by importing to their neighborhoods the social problems they have worked so hard to leave behind.

HANF, to be sure, would, if adopted, address such issues only indirectly. But by introducing the prospect of policy innovation, it introduces the hope for program improvement. I urge you to support the Administration's proposal.

"Housing Vouchers: Performance and Potential"
Congressional Testimony of

Bruce Katz
Vice President, Brookings Institution
Director, Brookings Institution Center on Urban and Metropolitan Policy

Presented Before
Committee on Financial Services
Subcommittee on Housing and Community Opportunity
United States House of Representatives
June 17, 2003

"Housing Vouchers: Performance and Potential"
Bruce Katz, Brookings Institution

Mr. Chairman, thank you for the opportunity to testify today on the performance and potential of housing vouchers. I have been involved in developing and evaluating federal housing policy for the past 15 years -- first as a staff member of the Senate Subcommittee on Housing and Urban Affairs under Senator Alan Cranston, next as Chief of Staff to HUD Secretary Henry Cisneros and now as director of the Brookings Institution Center on Urban and Metropolitan Policy.

During this period I have come to believe that housing vouchers represent the most effective and efficient way of making housing affordable for low-income renters – the most critical housing challenge in our country.

I will make four basic points today.

First, housing vouchers are a critical and generally successful component of federal housing policy. Compared to traditional HUD production programs, they offer a quicker and more efficient ticket to affordability, they give families greater choice in metropolitan rental markets, and, by so doing, they enable families to move to areas of growing employment and quality schools.

Second, the voucher program is not perfect and does need some improvement if it is going to realize its full potential. Administration of the program remains highly parochial and fragmented, diluting the mobility potential of the program.

Third, the Administration's proposal to block grant vouchers to the states does not address the shortcomings of the voucher program in a responsible way. The proposal would complicate rather than streamline voucher administration given the absence of an adequate delivery system in most states. In addition, the effort to model voucher administration after welfare reform is misguided and fails to understand the profound differences between these two programs.

Finally, voucher reform should be pursued in a measured and informed way. I recommend a series of reforms to better match the administration of vouchers to the geography of housing markets – metropolitan areas.

Let me address each of these arguments in turn.

The Benefits of Housing Vouchers

Housing vouchers play several essential roles in federal housing policy that should inform any reform effort.

First, vouchers are the most direct way of meeting the principal housing challenge facing very low-income renters — affordability. According to a HUD January

2001 report, 4.9 million very low income renter families have so-called "worst case housing needs," meaning that these families pay over half their income for housing or live in severely inadequate housing. For almost 80 percent of these families, or 3.6 million households, the sole housing problem is the housing cost burden. Put another way, these families live in decent housing but they simply pay more than 50 percent of their income for rent.

The root causes of the affordability problem are easy to identify. Most importantly, wages and incomes for a portion of the population – including a growing portion of the working population -- are just not sufficient to cover the costs of daily living, including transportation, health insurance, child-care and, most importantly, housing. Housing remains, by far, the largest household expenditure for American families and the cost burden goes up the poorer the family.

In addition, the supply of affordable housing has failed to keep pace with housing demand, particularly in suburban markets where jobs are growing and in metropolitan areas like Boston, Northern California or Washington, D.C. where real estate prices are spiking.

Against this backdrop, housing vouchers are by far the most effective and cost-efficient means of making housing affordable by closing the gap between incomes and rents. Unlike production programs, they can be delivered quickly to consumers who need assistance. They can also reflect and adjust rapidly to changes in local and metropolitan markets.

Second, housing vouchers give families greater choices of where to live than traditional production programs. Vouchers are unique among federal housing programs in that they allow the recipient rather than the developer to decide where to live. Not surprisingly, many voucher recipients exercise this choice and are dramatically less likely than public housing residents to be concentrated in high-poverty neighborhoods. According to a 1997 study by Anne Schnare and Sandy Newman, only 14.8 percent of Section 8 recipients live in high-poverty neighborhoods (neighborhoods that are more than 30 percent poor), compared to 53.6 percent of public housing residents.

The implications of these housing choices are profound. Low-income families know better than anyone else the costs associated with living in high poverty neighborhoods. People in these neighborhoods often face a triple whammy: poor schools, weak job information networks, and scarce jobs. They are more likely to live in female-headed households and have less formal education than residents of other neighborhoods. The ability to choose one's neighborhood is a basic tenet of empowerment.

Third, housing vouchers have enabled many recipients to move to communities with better employment and educational opportunities. Vouchers enable low-income families to operate as housing consumers in the broader metropolitan rental market.

Voucher recipients are given the ability to receive their assistance in one jurisdiction and take it to another as they search for housing that best fits their family needs.

This ability to exercise choice in the broader metropolitan market has positive implications for families, businesses and regions.

It enables voucher recipients to move closer to areas of growing employment. This is particularly important given the changing spatial geography of work in our economy. As Edward Glaeser and Matthew Kahn have recently demonstrated, employment decentralization has become the norm in American metropolitan areas. Across the largest 100 metro areas, on average, only 22 percent of people work within three miles of the city center and more than 35 percent work more than ten miles from the central core. The decentralization of employment is particularly pronounced in sectors of the economy – like wholesale trade and retail -- that offer entry-level jobs to low skilled workers.

The ability to exercise choice in the market also enables families with children to move to areas with better schools. As Diane Ravitch has shown, less than a quarter of poor children in inner city schools achieve "basic" levels in reading compared to nearly two-thirds of suburban children. Only about a third achieve basic levels in math and science, half the fraction of suburban students.

The housing voucher program – by enabling mobility --- enables low-income families to connect their housing and school decisions – something middle class Americans do every day. And it works. Research by Jens Ludwig, James Rosenbaum and others has shown that when low-income families are given the chance to move to better neighborhoods, school performance improves. The Gautreaux litigation and Moving To Opportunity demonstration program showed that children did substantially better in school when they moved from high- to low-poverty neighborhoods; and those who moved to the suburbs did better than those that moved to another part of the city.

In short, the housing community has something to say – profound to say – about school reform and educational achievement that is grounded in 20 years of rigorous programmatic and social analysis.

Enabling low-income families to live closer to areas of growing employment and more economically diverse schools does not only benefit those families and their children. Vouchers can benefit businesses by enabling workers to live closer to their places of employment. And there is growing evidence that entire regions are better off when fewer people live in neighborhoods of concentrated poverty. A greater balance between jobs and housing helps ameliorate the negative consequences – excessive sprawl, increasing congestion, declining environmental quality -- that are associated with current metropolitan growth patterns.

The Shortcomings of Housing Vouchers ... and Voucher Administration

In general, therefore, the housing voucher program performs exceptionally well, particularly when compared with traditional HUD production programs. Yet the program is not perfect and falls short of achieving its full potential in several respects.

First, not all voucher recipients are successful in finding a house or apartment that qualifies under the program. A 2001 study by Meryl Finkel and Larry Buron concludes that the share of voucher recipients who are successful in finding qualifying units in large metropolitan areas is 69 percent. This represents a substantial decline from the 81 percent success rate that was calculated for the late 1980s. As one would expect, success rates vary across metropolitan areas and are influenced by various factors: the general tightening of housing markets across the country, exclusionary zoning practices in suburban communities, the competence and capacity of local housing authorities.

Second, housing vouchers do not provide equal access to low-poverty and low-minority neighborhoods for all poor households. The neighborhood outcomes described above are not uniform across racial and ethnic groups, jurisdictions and household types. Research tells us that vouchers produce better locational outcomes for suburban recipients than for central city residents, for white recipients than for African Americans and Hispanics, and for the elderly than for non-elderly families and disabled people. Research also tells us that voucher holders appear to be significantly under-represented in low-poverty neighborhoods relative to the availability of potentially affordable rental housing. Tenant-based assistance still consistently outperforms public housing, even in central cities, even among African Americans and Hispanics, and even among families and disabled recipients. But it clearly has the potential to offer better locational outcomes for these groups.

Third, landlord participation in the program remains a constant challenge. When I was at HUD, we focused intensely on ensuring the broadest possible participation of landlords in the voucher program. Our reasoning was simple. The broader the landlord participation, the greater the choices, spatial and otherwise, for the recipients. We found that what landlords want is not difficult to ascertain. They want timeliness of payment and inspection. They want certainty and predictability in rules and regulations. They want comparability with private section practice and expectation. They want a trustworthy and competent government partner.

Over the past decade, we have made some progress in making the voucher program better fit the private sector model. Congress repealed several statutory provisions that impeded participation. Outreach to landlords increased substantially. Yet landlord participation in the voucher program remains a constant challenge, particularly at times when rental market are tight, vacancies low, price pressures high and alternatives plentiful.

Finally, administration of the voucher program remains highly fragmented and insular. Since inception of the program, local public housing authorities have enjoyed a near monopoly over voucher administration. In many communities, this arrangement has been highly successful. Many local agencies quietly and expertly perform the multiple tasks of administering vouchers. They recruit quality landlords, oversee the maintenance of properties, ensure the prompt payment of rental assistance, screen and counsel recipients and link with community institutions and service providers.

But devolving voucher administration to 2,600 separate public housing agencies also has its drawbacks, particularly in large, complex metropolitan markets. Most importantly, the parochial administration of vouchers does not match the metropolitan geography of rental markets. As Mark Alan Hughes has shown, the fragmentation of voucher administration is quite severe in particular metropolitan areas. In the Detroit metropolitan area, for example, there are 31 separate public housing authorities; in Philadelphia 19, in Chicago 15. In these and other metropolitan markets, "too much" devolution has made it difficult for low-income families to know about housing vacancies and exercise choice in a metropolitan housing market.

The absence of competition for voucher administration has also, arguably, stifled innovation and accountability. Public housing agencies essentially operate this program in a closed system, where high performance is rarely rewarded and bad performance is rarely punished. Voucher administration has, therefore, not realized the benefits of competition that have influenced other areas of domestic policy like education or welfare, where administrative responsibilities have been opened up to a wide array of public, non-profit and for-profit entities.

A Block Grant Would Undermine the Voucher Program

Against this backdrop of general success and selective challenges, the Administration has proposed block granting housing vouchers to the states based on the welfare reform model. The new block grant – Housing Assistance for Needy Families – is intended to streamline voucher administration, promote more flexibility in program implementation, encourage greater use of voucher funds, and further the coordination of housing and welfare programs.

Like many witnesses who have appeared before this Subcommittee, I have grave misgivings about this proposal and believe that it has the potential to do significant harm to the voucher program. I believe that the state level is the wrong level for administration of this program and will recommend later several strategies to buttress metropolitan approaches to voucher administration.

In prior testimony, this Subcommittee heard several overarching criticisms that I believe are valid and deserve close scrutiny.

The Administration dramatically overestimates the capacity of the states to administer this program. The decision to block grant welfare to the states was based in part on the long history of welfare administration and innovation at the state level. The history of voucher administration is radically different. According to NAHRO, public housing agencies administer approximately 86 percent of the vouchers on a national basis, and states administer the remaining 14 percent. A NAHRO analysis also shows that more than half of the states have either: (1) no experience administering the program; (2) voluntarily or involuntarily relinquished all or part of the program; or (3) administer 5 percent or less of the vouchers.

The transition to a new state administered system would require the creation of a new layer of governance that does not now exist, and thus would be confusing and costly. States would be required to carry out (or subcontract) the myriad of responsibilities now undertaken by local agencies. In addition, states would be required to assume many of the oversight and management functions that are now conducted by HUD. I believe that the introduction of a state middleman into the mix of voucher administration is a recipe for administrative chaos in the short term without any serious prospect of long term benefits.

Inadequate future funding for the block grant would dramatically undermine the broader goals of the program. The shift to a block grant could substantially alter the method by which Congress determines funding for the voucher program. Under current practice, Congress sets funding for the program each year to ensure the renewal of all existing vouchers and reflect changes in actual voucher costs. These funding decisions are important to ensure that the voucher program reflects market conditions and market expectations. In the real world, rents rise and any program that wants to leverage private market participation needs to reflect that simple fact.

The shift to a block grant would potentially decouple funding decisions from these concerns over rental markets and voucher renewals. It is highly likely that block grant funding would be influenced more by the fiscal constraints of the moment than by any overarching programmatic rationale. In the event that block grant funding is not sufficient to cover the program's needs, states would probably take one of several actions.

To make up funding shortfalls, state agencies might shift assistance to households with more moderate incomes since they require fewer subsidies, thereby enabling the agency to continue serving the same number of households. They might opt simply to reduce the number of families that receive housing vouchers, irrespective of the demand for rental assistance. They might require recipients to pay a higher share of their income for rent. Or they might limit the ability of households to use vouchers in low poverty areas, as those places with access to more opportunities usually have higher rents.

All these funding scenarios, which are fairly likely in the current fiscal climate, could have a profound impact on which landlords participate in this program. As I said above, landlords want certainty and predictability in program rules and funding levels. The more uncertainty, the less likely that good, responsible, landlords will participate.

The Subcommittee also heard testimony that raises doubts about the Administration's stated intention to use welfare reform as a model for voucher administration. I agree with these criticisms and have several to add.

Vouchers serve a much broader universe of households than welfare recipients. The Administration contends that a voucher block grant would complement state administration of welfare reform. Yet this contention ignores the fact that only 13 percent of voucher recipients receive a majority of their income from welfare benefits. By contrast, 35 percent of voucher recipients receive a majority of their income from wages and 42.5 percent of voucher recipients receive a majority of their income from SSI or pensions. The latter figure reveals the substantial portion of voucher recipients who are either elderly or have disabilities. The voucher program is, in essence, not simply the housing equivalent of welfare. It serves a much broader universe of households than welfare and deserves to be considered on its own merits.

Unlike welfare reform, the demand for housing assistance will not decrease. As described above, the unmet demand for housing assistance in the United States is substantial. Nearly three-fifths of working poor renters with children who do not have housing assistance pay more than 50 percent of their income for housing or live in seriously substandard housing, or both. It is simply inconceivable that the experience under welfare reform – where caseloads fell dramatically after the block grant was introduced – would be replicated under housing reform. With declining welfare caseloads, state agencies were able to make creative decisions under a fixed ceiling of block grant funding. The same level of "programmatic savings" would simply not happen under a housing block grant since demand for housing assistance would not decrease.

State administration of vouchers could have a negative impact on central cities and the low-income families who disproportionately live there. Evidence from the 2000 census shows that central cities remain home disproportionately to the nation's very poor. While poverty has declined in central cities, for example, urban poverty rates are still twice as high as suburban poverty rates, 16.4% versus 8.0% in 1999. Cities are also disproportionately home to families whose earnings are above the poverty level, but below median income.

Given this concentration of city poverty, the implementation of welfare reform remains a special problem in urban areas. While welfare caseloads are shrinking in most cities, with some exceptions they are not shrinking as quickly as they are in the states and in the nation as a whole. As Brookings has repeatedly shown, a city's share of a state's welfare population often far outstrips its share of the state population as a whole. Philadelphia, for example, is now home to 12 percent of all Pennsylvanians, but 49 percent of Pennsylvanians on welfare. Baltimore has 13 percent of Maryland's population, but 56 percent of its welfare recipients.

Nothing in the Administration proposal shows any understanding of or concern about this concentration of urban poverty. The proposal provides some basic guidance on how federal funds would be allocated to the states but no direction on how funding would then be suballocated to particular areas within a state. The proposal also contains no performance requirements or other accountability mechanisms that would require states to pay special attention to the unique needs of cities, other areas of deprivation and minority households. Despite the excessive concentration of poverty and welfare caseloads in cities, therefore, states would be under no obligation to provide urban places with a "fair share" of funding, let alone the funding necessary to address the special circumstances under which they labor.

Welfare reform requires a strong voucher assistance program. There is no doubt that vouchers should be coordinated with TANF and efforts to support current and former welfare recipients. In fact, many public housing agencies are already heavily involved in welfare-to-work efforts at the local level. Yet a block grant to the states is not the best way to achieve broader coordination. Rather, the voucher program should do what it was intended to do: provide rental subsidies that reflect the realities of the marketplace and enable recipients to live in areas of their own choosing, including areas of growing employment.

What Voucher Reform Should Look Like

In my view, therefore, the Administration's HANF proposal is fundamentally and fatally flawed and should be rejected by this Subcommittee. Yet rejection of the HANF proposal does not mean that the existing system should remain unchanged. There are clearly problems with housing vouchers that need to be remedied.

Some of the problems that I have identified could be addressed short of additional statutory reform. The problems of unused vouchers, for example, could be addressed if local housing agencies set voucher payments in a way that better reflected market conditions.

Yet I believe more substantial reforms are necessary to ensure that the voucher program reaches its fullest potential and gives voucher recipients greater ability to exercise their residential choice in the marketplace.

As I have written before, I believe that Congress needs to encourage a continuum of metropolitan approaches to voucher administration that include collaborative activities among local public housing agencies as well as, in some places, the actual consolidation of separate agencies. I believe metropolitan areas, not states, are the right geography for thinking about housing policy and rental assistance. Metropolitan areas are organic markets in which housing demand and supply decisions play out every day. States, by contrast, are political and constitutional entities whose borders rarely coincide with the natural operation of housing markets.

I recommend that this Subcommittee consider four incremental steps.

First, Congress could authorize and fund HUD to test the feasibility of making information on metropolitan housing markets transparent and accessible to low-income consumers. This would simply replicate for the rental market what already exists in the homebuying market where multiple listing services provide information on all homes for sale in a given metropolis and beyond. Why shouldn't recipients of vouchers have ready access to information about rental housing vacancies, school performance and employment accessibility so that they can make informed housing decisions?

Second, Congress should use the allocation of any new vouchers to encourage coordination and collaboration among public housing agencies in metropolitan areas. Extra points should be given to applicants that represent a consortium of local administrators and seek to represent all or part of the metropolitan area. Likewise, preference should be given to applicants that involve private sector institutions in the delivery of such services to voucher recipients such as counseling.

Third, Congress should adequately fund mobility counseling as well as landlord outreach efforts. Both of these approaches are essential to the success of the voucher program.

Finally, Congress and HUD should test the feasibility of alternative metropolitan approaches to voucher administration including but not limited to the consolidation of public housing agencies and/or the contracting out of voucher administration to non-governmental entities. HUD could, for example, use its management assessment responsibility to experiment with more permanent and more metropolitan-oriented administrative remedies to poor performance. In addition, Congress could fund a demonstration in several metropolitan areas that uses a multi-year commitment of incremental vouchers (and, perhaps, other production resources) as the carrot for creative approaches to metropolitan governance.

These steps are incremental and are primarily designed to broaden the number of places that administer vouchers on a metropolitan basis. These reforms, of course, are not sufficient to address all the utilization and mobility challenges in the voucher program. Congress clearly needs to consider broader responses to expand the supply of affordable housing in growing communities, particularly through efforts to remove regulatory and zoning barriers to affordable housing production.

Conclusion

For the past thirty years, the voucher program has been a mainstay of federal housing policy. More than any other federal housing program, it places power and resources in the hands of low-income renters and, by so doing, enables them to make decisions about housing, jobs and schools in a unified way. For the reasons stated above, the program – and particularly the administration of the program – needs improvement. But reform needs to proceed in a measured and responsible way to avoid making the cure worse than the disease.

Testimony before the House Committee on Financial Services
Subcommittee on Housing and Community Opportunity
June 17, 2003

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Thank you, Mr. Chairman. I appreciate the opportunity to be on this panel. My name is Jill Khadduri, and I work at Abt Associates, a national social science research firm. My company has done most of the basic research and program evaluation on the voucher program from the 1970s until now. We also provide technical assistance to voucher program administrators.

Examples of the research we have done recently at Abt Associates that may be of particular interest to this committee include:

- A study of what affects voucher utilization rates--meaning whether all subsidy funds allocated to a local program administrator are used (Finkel et al. 2002).
- A study of what affects voucher success rates--meaning what percentage of families to whom a voucher is issued use that voucher (Finkel and Buron 2001).
- A study of the circumstances that may bring a voucher program into conflict with residents of a neighborhood, how those circumstances can be avoided, and how conflicts can be resolved (Churchill et al. 2001).

We have also studied special uses of vouchers, including homeownership vouchers, welfare to work vouchers, and vouchers used by people with disabilities (Turnham et al. 2002, Wood and Patterson 2001, Technical Assistance Collaborative and Abt Associates 2002).

Before I came to Abt Associates, I worked for many years in the Office of Policy Development and Research at HUD. I was involved in virtually all of the changes to tenant-based housing assistance, as it evolved over the years from the Section 8 Certificate program to today's Housing Choice Voucher Program.

I can tell you on the basis of both my earlier experience and my involvement in recent studies that the voucher program is not flawed. Its basic design is sound, and it is an effective and cost-effective program for meeting the housing needs of low-income households—particularly low-income families with children, the poorest households (those with extremely low incomes), and people with disabilities.

At the same time, the idea of consolidating administration of the voucher program at the state level is very attractive and would overcome some of the *relative* shortcomings of the voucher program. It is essential that any such consolidation into a state block grant should have four features:

- The choice-based character of the voucher program should be preserved.
- Flexibility for states to alter the structure of the subsidy formula, impose time limits, or alter the housing quality inspection should be carefully tested and evaluated before all states have such flexibility.
- The program should have clear performance goals and reporting requirements, including preservation of the requirement to report household-level data in standard format.
- The annual appropriation of funds for the program should be tied both to maintaining current numbers of families assisted at adequate assistance amounts for each household and to steady program growth to reduce the unmet need for rental housing assistance.

Let me turn to the results of some of our recent studies of the voucher program in order to tell you why I believe the basic design of the voucher program is sound and the program is working well.

The so-called utilization crisis is well on its way to being solved. What we found when we did intensive case studies at 48 housing authorities between December 2001 and April 2002 is that many of the programs that had low utilization rates made substantial improvements once they got the word from HUD that funds not used would be taken away. We also found that many of the housing authorities with low utilization rates had staffing problems. The voucher program director had left and had not been replaced, and basic program functions such as issuing new vouchers had ground to a halt. Or the program had received an allocation of funds for a special purpose and had turned all its energies to implementing that special program, while letting the regular program slide.

An important finding of that study is that, while it is *relatively* more difficult for housing authorities in difficult market conditions to use all of their voucher funds, good program administrators find ways of doing so.

Success rates for families, as I am sure this committee knows, are not the same as funds utilization rates for local programs. Not all families who are issued vouchers succeed in using them, but a large fraction does so. Vouchers not used go to the next family on the waiting list, so a program can fully use its voucher funds without a 100 percent success rate for families.

Our study of voucher success rates at urban PHAs tracked families through the process of trying to use their voucher during the summer of 2000. The overall success rate was 69 percent. Success rates were high for all types of households in all types of locations. They were high for all racial and ethnic groups, they were high for people with disabilities, and they were especially high for those households with the lowest incomes (incomes below 30 percent of the area median).

We are just completing a follow-up study on why some of these housing authorities had high success rates even though they were operating programs in tight housing markets. We have not yet presented a final report for that study to HUD, but a basic story is that overall quality of program administration is what counts (The QED Group and Abt Associates, forthcoming 2003).

Vouchers are particularly beneficial, and heavily used (more so than other HUD housing assistance programs), by families with children. People with disabilities—despite possible needs for special housing features and possible discrimination—have success rates just as high as other types of households and form a large and growing fraction of voucher users.

Vouchers are not harmful to neighborhoods. The isolated cases of neighborhood conflict we studied in 1999 and 2000 showed that neighborhood concerns about vouchers can be avoided or overcome by program administrators who are alert for possible over-concentration of voucher use in small areas and who act quickly when a complaint arises to find out the facts of the case and to work actively and responsively with neighborhood groups.

A common theme of these studies is that good program administration is at the heart of the distinction between excellent and inadequate program results. The voucher program's design is sound, and the program is not in crisis.

Having said that, there are some very good reasons to consolidate program administration at the state level and to give the states greater discretion over some features of the design of the program.

The advantages of state level administration are:

First, states would be in a position to rationalize the administration of the program, which now is fragmented into more than 2500 separate administrative entities. Many administer very small numbers of vouchers and, therefore, are inefficiently staffed. Overlapping jurisdictions confound good program administration.

Our utilization study found that there often were not two but *three* programs operating in the same geography, to the confusion of low-income families and owners of rental housing.

Our neighborhood relations study found that overlapping jurisdictions made it difficult to avoid and solve neighborhood conflict because it was hard for a housing authority to tell where another administrator's vouchers were being used and hard for a neighborhood group to know who was in charge.

Second, state administration could help overcome the barriers that currently exist to the use of vouchers across jurisdictional lines and help voucher users to gain access to the widest possible choice of housing locations.

Third, states would be in a good position to coordinate the voucher program with other programs that serve needy populations—welfare reform and services for people with disabilities, or example. Most of these programs are administered at the state level and state level administration of vouchers would enable coordinated policies.

Finally, if we are to experiment with changes to the basic design of the voucher program, states are the right level for this to happen. States have more freedom than the federal government to experiment with such controversial voucher program changes as time limits and altering the housing quality inspection. At the same time, they have more ability to create carefully designed and evaluated experiments around fundamental program design changes than do local housing authorities—and they can more easily be held accountable by the federal government.

I am not going to respond directly to the Administration's proposal for a block grant called Housing Assistance for Needy Families. Instead, I am going to outline four features that are essential should the Congress decide to consolidate program administration in a state level block grant.

First, the choice-based nature of the program should be preserved. We already have a housing block grant. It is called the HOME program. Permitting states to attach vouchers to housing developments would make a voucher block grant no different from HOME and would threaten the budgets for both programs. The most attractive and important feature of the voucher program is that families can choose their own housing rather than being forced to live where program administrators have decreed that they should live. That feature must be preserved.

This does not mean that vouchers could not be used for homeownership. The voucher homeownership option currently that is a current part of the program is choice-based. A household chooses the housing unit it buys.

Second, while state administrators of a voucher block grant should have immediate flexibility in program design, those features that go to the heart of the program should not be altered without careful testing. I am speaking of time limits and the programs housing quality standard and inspection, but I am also speaking of the structure of the subsidy formula. The subsidy formula—payment standard minus 30 percent of income—makes the program's benefit phase out as income grows and makes the subsidy smaller for households with relatively higher income levels. This means that in a very real sense the program targets itself to the most needy families. A program with a flat benefit level—say $400 per month—would be just as attractive to relatively higher income family as to the poorest family, and relatively better off families might get on the program's waiting list. In time, the pattern of who gets the assistance from a program that we all know does not have enough resources to serve everyone in need would change.

I recommend modeling this feature of any voucher block grant on the AFDC state waivers that preceded welfare reform. Individual states should be permitted to implement changes to the subsidy structure, time limits, or changes to housing quality standards, with careful experimental design and evaluation of results.

Third, legislation enacting a voucher block grant should include performance goals and measures and should mandate the continuation of the collection of household level data on income levels, demographic characteristics, subsidy amounts, and the location of housing units. This is essential so that Congress and the American public know what they are paying for. It is also essential for estimating budget levels for the program—what is needed to sustain the current program level and what is needed for the program to grow.

Finally, the legislation enacting a voucher block grant should include explicit statutory language relating the program's funding level to housing needs. Only such a congressional declaration of intent—and good data on households served and subsidy levels—will overcome the fears of those who believe that a voucher block grant would mean the loss of the federal commitment to meeting the housing needs of low income renters.

Note: The views expressed in this testimony are spelled out in more detail in a forthcoming article (Khadduri 2003). They are my own and should not be construed as representing the positions of Abt Associates Inc. or any other organization.

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To strengthen and promote cities as centers of opportunity, leadership, and governance.

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WRITTEN STATEMENT OF

HENRY F. MARRAFFA JR.

COUNCILMEMBER

GAITHERSBURG, MARYLAND

on behalf of

THE NATIONAL LEAGUE OF CITIES

before the

HOUSING AND COMMUNITY OPPORTUNITY SUBCOMMITTEE

UNITED STATES HOUSE OF REPRESENTATIVES

on

SECTION 8 HOUSING ASSISTANCE PROGRAM

JUNE 17, 2003

Chairman Ney, Ranking Member Waters, and members of the Subcommittee, I am Henry Marraffa, Council Member from Gaithersburg, Maryland, and a member of the National League of Cities Community and Economic Development Steering Committee. It is my pleasure to be here today to testify on behalf of the National League of Cities and over 18,000 municipalities across the country on the proposed changes to the Section 8 Housing Assistance Program.

Housing vouchers are the nation's principal form of low-income rental housing assistance. Households with vouchers typically pay approximately 30 percent of their income for rent, with the vouchers covering the remainder of the costs for modestly priced units. A major reason for the success of the voucher program is its flexibility. Within subsidy limits, voucher holders may select housing in neighborhoods of their choice with the rent subsidy remaining with the family during any subsequent move. This program feature allows participants to choose housing in desirable neighborhoods where jobs or educational opportunities may be more plentiful, thus providing families a real chance to become self-sufficient.

The Housing Choice Voucher Program is a key part of the federal government's efforts to address an ongoing national housing crisis through the private housing market. While the program provides millions of low-income parents an affordable, decent and safe home for their children, there are still millions of children who do not have a decent and safe place to call home. Our national goals of improving education and public safety cannot be accomplished if basic housing needs remain unmet.

NLC believes a radical change in the nation's largest low-income housing program will substantially damage a program that is effective in providing housing assistance to low-income families, the elderly, and disabled individuals. H. R. 1841, the Housing Assistance for Needy Families legislation poses significant threats to the success of the Section 8 program. In particular, the National League of Cities is concerned with specific provision of the legislation that threaten:

- The overall level of federal funding (the funding structure of the program);
- A reduction in, and constraints on, assistance available to low-income families;
- Local control over the housing program; and
- An increase in administrative burdens.

Federal Funding

Currently, Congress adjusts funding each year based on changes in actual costs to ensure that housing agencies have sufficient funds to cover all vouchers. H.R. 1841 makes no provision for adjusting total block grant funding based on housing costs, general inflation, or any other factor. The formula proposed would only consider housing costs to decide what percentage of the total funding provided for the block grant nationally would go to each state, not the cost of housing at the local level.

Limits on Assistance

If federal funding falls behind the program's needs, states would have to contribute their own funds or scale back their programs by:

- Reducing the number of families that receive housing vouchers;
- Shifting housing assistance to higher-income families;
- Shifting rent burdens to families participating in the program; or
- Limiting opportunities to use vouchers to escape high-poverty areas.

As things stand now, three out of four low-income families eligible for vouchers do not receive housing assistance because of funding limitations. In Montgomery County alone, we have approximately 62,000 residents who cannot afford the market rate of $1,180 for a two bedroom apartment and our voucher waiting list currently at 4,370. A reduction in the number of vouchers would make the shortage of affordable housing even larger. NLC is concerned that states could respond to the likely erosion of voucher funding by reducing the number of families that their voucher programs serve.

States could also reduce expenditures if funding fails to keep pace with need by shifting vouchers to families less in need. Because vouchers make up the difference between the rent for a modestly priced apartment and 30 percent of a tenant's income, poorer families receive larger than average subsidies and are therefore more expensive to serve. Shifting vouchers to higher-income families could be attractive to states, as it would reduce costs per voucher, making it possible to spread inadequate funding among more families.

Moreover, to the extent that the block grant's performance standards encourage states to serve as many families as possible, states would feel pressure to shift vouchers to higher-income families.

Under the block grant proposal, states would be able to set the payment standard at any level they deem reasonable. NLC is also concerned that states might deal with funding reductions by shifting the rental burden to low-income families by reducing the voucher "payment standard." There is no obligation or incentive to set payment standards at an adequate level.

H.R 1841 would limit the voucher holder's "choice." One of the principal advantages of the current housing voucher program is that it allows the participant to move to areas of their choice, including neighborhoods with more job opportunities, lower crime, or better schools. This market-based approach was adopted during the Nixon and Reagan administrations as an alternative to public housing and other programs that tie housing assistance to a particular building and, as a result, concentrate poor people in certain locations. Because rents often vary substantially from one neighborhood to another, lower payment standards would effectively limit the geographic areas where poor families can use their vouchers.

Local Control

Local flexibility is the key to the success of the Section 8 Voucher Program. Public Housing Authorities (PHA's), with the cooperation of local governments, have a long history of administering the voucher program in a way that supports families, ensures accountability and protects the public interest. PHA's know the local housing market and have long-established relationships with both rental property owners and local social service providers.

For instance, in my city, Gaithersburg, Maryland, the Housing Opportunities Commission of Montgomery County which administers the Section 8 Voucher Program currently provides 4, 292 lease vouchers with a 96% utilization rate. Our problem is that we do not have enough vouchers.

Increased Administrative Burden

Not all states have demonstrated the capability, or the desire, to administer the program. If this were not the case, why is $110 million included in the budget to build capacity? PHA's have been administering the program since the beginning and they understand their local housing market much better than the far-removed state. We do not need another level of bureaucracy.

Finally, one of the most problematic aspects of the proposal is the states' ability to discriminate against sub-state areas. A state could shift vouchers from community to community, provide more administrative resources to one area to the exclusion of another, or even bar the use of vouchers in certain regions. HUD has stated that a funding formula would be developed after enactment of the bill to address this risk. But the formula would govern allocations of funding among states and would have no effect on allocations among areas within states. Such discriminatory actions would be detrimental not only to a local community not in good standing with the state, but also would ill serve the overall needs of the low-income people living there.

Conclusion

While the Section 8 Voucher Program has been successful across the country, the National League of Cities recognizes, along with most everyone else who has testified, that the program is not perfect. Perhaps some of the technical aspects of the program, should be revisited by the experts who administer the program, and NLC is committed to assisting Congress and the Administration in such a review. However, we strongly believe that the overall goal should focus on the best way to serve those families in need. Local government and public housing authorities belong and should remain on the front line to play a primary role.

I would like to state for the record that, the National Association of Counties, the National Association of Local Housing Finance Agencies and the National Community Development Association share our strong commitment to local control and endorse the position of the National League of Cities as reflected in our testimony today. I would like to especially thank the Center on Budget and Policy Priorities and the Council of Large Public Housing Authorities for their technical assistance in preparing this testimony.

I appreciate the opportunity to present the views of the National League of Cities and would be happy to answer any questions.

CONSORTIUM for CITIZENS with DISABILITIES

STATEMENT OF ANN O'HARA
ASSOCIATE DIRECTOR
TECHNICAL ASSITANCE COLLABORATIVE, INC.
ON BEHALF OF THE CONSORTIUM FOR CITIZENS WITH DISABILITIES HOUSING TASK FORCE

SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY
COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

JUNE 17, 2003

Chairman Ney and Ranking Member Waters, the Consortium for Citizens with Disabilities (CCD) Housing Task Force is grateful for the opportunity to provide testimony to the Housing and Community Opportunity Subcommittee on HR 1841 – a proposal to convert the Section 8 Housing Choice Voucher program to a flexible block grant program administered by the states. We appreciate the opportunity to share our views on this important issue and our concerns about the potential impact of this proposal on people with disabilities.

The CCD Housing Task Force is a coalition of national disability organizations working to promote access to affordable housing opportunities and community supports for people with disabilities. Among the groups participating in the CCD Housing Task Force are the Arc of the United States (the Arc), American Network of Community Options and Resources (ANCOR), the National Easter Seals Society (NESS), the National Alliance for the Mentally Ill (NAMI), the National Association of Protection and Advocacy Systems (NAPAS) and the Paralyzed Veterans of America (PVA) and United Cerebral Palsy Associations (UCPA). The individuals who we represent – most of whom have very low incomes, many of whom depend solely on Supplemental Security Income (SSI) or other disability benefits – are current participants in the Section 8 HCV program, are on Section 8 waiting lists, or are applicants for federal housing assistance. The Section 8 HCV and other federal housing assistance is critical to their ability to have any chance of obtaining affordable and accessible housing in the community.

Overview – People with Disabilities and the Section 8 Housing Choice Voucher Program

People with disabilities have the highest level unmet need for housing assistance of any group eligible for federally subsidized housing assistance. In 2002, approximately 3.7 m million non-elderly people with disabilities relied solely on federal SSI benefits worth $545 per month. Less than 15 percent of these people receive any housing assistance from HUD. HUD's own Worst Case Housing Needs reports to Congress estimate that as many as 1.4 million people with disabilities receiving SSI live in seriously substandard housing and/or pay more than 50 percent of their income for rent. At least 1.9 million people receiving SSI do not have any housing in the community at all. Instead, they are stuck in nursing homes, institutions or other restrictive settings, or they are homeless and living on the streets or in emergency shelters. Hundreds of thousands of people with disabilities still live at home with aging parents who do not know where their adult child will live – or how the rent will be paid – after they die.

A comprehensive housing affordability study – *Priced Out in 2002* – just published by the Technical Assistance Collaborative Inc. and the CCD Housing Task Force explains why people who rely on SSI have such serious housing problems. The *Priced Out* study compared SSI income to HUD Fair Market Rent levels in 2002 in over 2,700 housing market areas of the United States, and found that, on average nationally, it would take 105 percent of monthly SSI income to rent a modest one bedroom apartment priced at the Fair Market Rent. More simply stated, people with disabilities who rely on SSI cannot afford decent housing in any part of the United States unless they receive some type of housing assistance.

During recent years, the Section 8 Housing Choice Voucher program has been the primary resource – and sometimes the only resource – available to begin to address the housing needs of people with disabilities in local communities. The CCD Housing Task Force believes that Congress should continue to have the responsibility to protect people with disabilities who receive Section 8 vouchers or who need Section 8 assistance. Section 8 is literally a "lifeline" for people with disabilities who want to live normal lives in the community but cannot afford the cost of even modest rental housing.

Because of the importance of the Section 8 program to people with disabilities, the CCD Housing Task Force is strongly opposed to the conversion of the Section 8 Housing Choice Voucher program to a block grant. We believe that Congress should continue to have the direct responsibility for ensuring adequate funding for the program and for decisions about how the Section 8 program is used. HUD's role in administering the Section 8 program, and in monitoring the use of vouchers by PHAs, is also critically important. HUD should be devoting the resources that are needed to carry out these responsibilities successfully. Most importantly, the Section 8 program should continue to be targeted to addressing the most critical housing needs in our country today – those of extremely low-income people including people with disabilities.

The CCD Housing Task Force is opposed to this legislation because HR 1841 would:

- Reduce the federal resources available for subsidized housing for the lowest income people, including people with disabilities.
- Undermine the substantial progress that has been made during the past six years to expand access to vouchers for people with disabilities;
- Eliminate many important protections now provided in the program which benefit people with disabilities; and

- ➢ Jeopardize over 50,000 Section 8 vouchers now set-aside for people with disabilities, including the Section 8 Mainstream vouchers funded by the Section 811 Supportive Housing for Persons with Disabilities program.

Findings and Purposes

The CCD Housing Task Force does not agree with many of the findings and purposes included in HR 1841, which is proposing a fundamental and radical change in our nation's housing policies.

For example:

- We believe that substantial progress is being made to address unspent appropriations. In fact, many PHAs are now over-leased, or are concerned about leasing additional vouchers because of uncertainties around funding. Unspent appropriations, including those set-aside for people with disabilities, were caused by a number of interrelated factors including the "overheated" rental housing market of the late 1990s, a serious lack of attention to the program at HUD, and a PHA culture that says "no" rather than "yes" for fear of violating HUD policies;

- We do not agree that the 2,600 PHAs have contributed to the development of overly prescription regulatory and statutory measures. In our experience, HUD attorneys and HUD staff are the more likely culprits. The CCD Housing Task Force's direct experience with HUD's administration of vouchers set-aside for people with disabilities under the Mainstream and Designated housing programs documents this point. While some PHAs may be guilty of rigidity in their practices, this is an outcome of how HUD writes the rules not PHA administration;

- We strongly disagree with the bill's attempt to create a more fundamental policy linkage between vouchers and self-sufficiency, unless self-sufficiency is defined simply as "having a decent and affordable place to live in the community". The voucher program has always assisted many types of households – including disabled households, elderly households, as well as families with children. While linking vouchers to economic self-sufficiency initiatives (i.e. TANF recipients receiving Welfare to Work vouchers) has been an extremely successful policy to assist family households with children, it is scarcely relevant to the critical issue most extremely low income people with disabilities (or elderly people, for that matter) confront – which is simply a lack of decent, affordable and accessible housing in the community.

The CCD Housing Task Force does not believe that a State-administered block grant as proposed in HR 1841 will accomplish the purposes outlined in the legislation.

For example,

- The evidence is clear that most states do not have the capacity to administer a voucher block grant, so funds would not be used promptly and effectively. During the past few years, state-operated voucher programs have had lower Section 8 utilization rates that most PHAs and some state programs have been very troubled;

- States do not currently have the tools or methods available to accurately monitor or measure local markets. HUD has 27 years of experience with these activities;

- Administrative decision-making at the state level has great potential to "politicize" the voucher program. People with disabilities could easily be the losers if housing needs, politics, and budget shortfall issues are allowed to be "co-mingled" with the voucher program;

The CCD Housing Task Force believes that additional flexibility is needed in the voucher program, but such flexibility should be provided by Congress and by HUD. It should not be administered by state officials who diverted TANF funding for other state responsibilities in the late 1990s or who have used tobacco settlement funding to offset state deficits in programs unrelated to health care.

Our concerns about the specific policies incorporated within HR 1841 are itemized below:

#1. In CCD's view, a block grant would result in a "cap" and eventually reduce voucher appropriations, and would likely lead to: a reduction in the number of households assisted; and higher tenant rents and less subsidy funding provided to participating households. Under a block grant, Congress would no longer have the direct responsibility for continuing assistance to households participating in the program. Since its inception in 1974, Congress's direct responsibility for the voucher program's appropriations – based on the number of vouchers authorized – has ensured its continuation and its success.

Block granting the voucher program would have the affect of "capping" and eventually reducing the federal government's voucher program expenditures and the number of households assisted. Under a block grant approach, it would be much more difficult to obtain the necessary funding increases from Congress to ensure that appropriations kept pace with the increases in rental housing costs. It would also be extremely difficult to fund any new vouchers. Proposals to "index" the block grant for inflation would not be as effective or responsive as HUD's current system of establishing Fair Market Rents and exception rents.

Under a block grant, there would be no formula underlying annual appropriations which would relate to the number of vouchers in use or to changes in rental housing costs. Given the history of other federal block grant programs, there would also be substantial pressure on Congress to freeze or cut funding to the voucher block grant in the future. When funding did not grow sufficiently to meet increased rental costs, state administrators would be forced to take one or more of the following actions: (1) eliminate "turnover" vouchers, thus reducing the number of households assisted; (2) reduce the amount of subsidy provided to participating households which would require them to pay a higher percentage of their income for rent; (3) terminate households from the program.

The current program structure ensures that it is Congress's responsibility to fund all vouchers currently leased – a responsibility Congress has met every year since 1975. Stepping this responsibility down to the states is an indirect but extremely effective way of reducing the federal government's commitment to provide housing assistance to people with disabilities and other extremely low income Americans.

#2 - The essential features of a block grant program undermine the historic federal commitment within the Section 8 program to provide housing assistance for those most in need, including people with disabilities.

With a flexible block grant, state administrators could:

- Re-direct Section 8 voucher funding away from people with disabilities who are most in need of housing assistance in order to serve other more politically popular groups;
- Re-direct funding to higher income households who are less expensive to serve;
- Implement new policies, such as the time limits that exist in the Temporary Assistance To Needy Families (TANF) program. Such limits would be disastrous for people with disabilities living on SSI benefits whose impairments are not subject to an arbitrary time limit;
- Implement new policies favoring congregate or segregated housing rather than housing that reinforces community integration mandates.

The federal government must continue to play a strong role in establishing Section 8 policy because many states and localities have a poor track record in addressing the housing needs of people with disabilities with the lowest incomes, and in protecting their housing rights under federal fair housing laws. For example, few states and jurisdictions have prioritized the housing needs of people with disabilities within their Consolidated Plans. Very few have invested a "fair share" of their HOME and Community Development Block Grant funding to create new housing or tenant based rental assistance for people with disabilities. State/local flexibility within these HUD block grant programs has clearly not benefited people with disabilities – and is a key reason why the CCD Housing Task Force cannot support HR 1841.

Many states continue to ignore the housing preferences of people with disabilities and their rights under the Americans with Disabilities Act to live in housing integrated in the community. The Supreme Court's 1999 *Olmstead* decision is the best evidence of the segregated housing policies still practiced by state health and human services agencies. If the Section 8 voucher program is converted into a block grant, state officials with budget shortfalls may attempt to use these funds to replace state funding for segregated group homes or sub-standard board and care facilities such as those recently identified in New York State. Block grant legislation that includes protections against these types of practices would be extremely difficult, if not impossible for HUD to enforce.

#3. The CCD Housing Task Force is strongly opposed to the new targeting policies for higher income households in HR 1841 including providing assistance to disabled households and elderly households above 80 percent of median income.

The proposed legislation includes fundamental policy changes encouraging states to re-direct scarce voucher funding to higher income households including providing up to 45 percent of voucher funding to households above 30 percent of median and permitting elderly and disabled household above 80 percent to receive assistance under the block grant. HR 1841 provides no rationale for these departures from current federal housing policy. By contrast, the Priced Out in 2002 report cited above documents that on average SSI benefits place people with severe disabilities at 18.8 percent of median income.

Higher income households are now assisted through an array of federal housing programs, including the HOME and CDBG block grants, and the Low Income Housing Tax Credit program. The Section 8 voucher program is the "mainstay" program for the poorest people with disabilities and should remain so. The new targeting and income eligibility policies would be implemented at expense of people with the lowest incomes, including over 3 million adults with disabilities receiving federal SSI benefits who do not receive federal housing assistance – including people still living in restrictive settings such as institutions and nursing homes. Re-directing scare voucher program funding to households above 80 percent of median income when people in institutions are still waiting for housing assistance contradicts the Administration's New Freedom Initiative goal to help people with disabilities live in the community and the integration mandates in the ADA affirmed by the Supreme Court's Olmstead decision.

#4. Because of the continued implementation of "elderly only" designation policies by Public Housing Agencies and HUD-assisted housing owners, the Section 8 voucher program has been an extremely effective tool to mitigate the negative impact of designation for non-elderly people with disabilities. A block grant proposal would fundamentally alter the congressional strategy to provide new Section 8 vouchers for people with disabilities who are no longer eligible to move into "elderly only" buildings and jeopardize the 50,000 vouchers already set-aside by Congress for this purpose.

There are three major HUD subsidized housing programs that can assist the lowest income households, including people with disabilities: (1) HUD public housing administered by PHAs, (2) HUD privately owned assisted housing with project based subsidies and (3) the Section 8 voucher program. Both the HUD public and assisted housing programs have "elderly only" policies that have allowed subsidized studio and one-bedroom units to be restricted to elderly households age 62 and older. In response to these federal "elderly only" policies, the Section 8 voucher program has been the only major HUD subsidized housing program still completely open to people with disabilities under age 62[1]. It is also the only program that can begin to effectively mitigate the negative consequences of "elderly only" designation.

The CCD Housing Task Force has reliably estimated that "elderly only" policies have reduced the supply of HUD subsidized housing units available to people with disabilities by at least 400,000 units[2]. Since 1997, Congress has used the Section 8 voucher program to directly respond to these negative consequences of designation through the appropriation of 50,000 new Section 8 vouchers set-aside for people with disabilities. It is critically important for Congress and HUD to retain control of Section 8 program policies so that the program can continue to be used for this purpose, which states may not deem to be important. If the Section 8 voucher program is converted to a flexible block grant controlled by the states, the federal government's ability to use Section 8 vouchers as a policy tool would be completely eliminated. There would also be no assurance that the 50,000 vouchers, that Congress this year required to be continuously available for this purpose, would be protected.

#5 - The CCD Housing Task Force believes that a Section 8 block grant could also jeopardize the 10,000 vouchers for people with disabilities in the Section 8 Mainstream program funded from the Section 811 Supportive Housing for Persons with Disabilities program.

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[1] There are only two other HUD subsidized programs that can assist people with disabilities with the lowest incomes. The Section 811 Supportive Housing for Persons with Disabilities program only funds 25,000 units of non-profit owned housing and provides only 1,500 new units per year. HUD's McKinney Homeless Assistance programs can only assist people with disabilities who have already become homeless.
[2] In 1996 the Technical Assistance Collaborative and the CCD Housing Task Force published a report estimating that at least 273,000 units would be "elderly only" by 2000 – and estimate questioned by both HUD and Congressional officials. However, a congressionally mandated inventory of HUD assisted housing soon to be completed by HUD will likely show that the number of studio and one bedroom units restricted to elderly households and therefore not available to people with disabilities under age 62 may be much higher than the original 273,000 estimate.

HR 1841 makes absolutely no mention of the 10,000 Section 811-funded rent subsidies administered as Section 8 vouchers. This oversight illustrates the reason why the CCD Housing Task Force continues to pressure both HUD and the Congress to "undo" this flawed program policy which was initiated by HUD in 1997. As CCD has stated on many occasions, the 10,000 Section 811-funded vouchers are virtually indistinguishable from other Section 8 vouchers, even though they are paid for with scarce Section 811 funding. The fact that these vouchers are "lost" in a block grant proposal covering 1.8 million vouchers is just the latest evidence arguing for the creation of a Section 811-funded rental assistance program exclusively for people with disabilities that can be monitored appropriately by HUD.

#6 – The CCD Housing Task Force is opposed to HR 1841 because it eliminates the Section 8 project based assistance program – a vitally important new resource for people with disabilities.

The Section 8 project based assistance program has great potential for assisting people with disabilities who have difficulty obtaining the housing they need in the private rental housing market. The CCD Housing Task Force is opposed to HR 1841 because it eliminates project based assistance as an eligible activity and therefore is less responsive to the housing problems which people with disabilities experience on a day to day basis.
The project based voucher program is beginning to address these problems by:

- Creating or securing accessible and barrier-free housing needed by people with disabilities who have mobility or sensory impairments. This type of housing is very difficult to secure in the rental housing market with a tenant based voucher.
- Providing a longer term commitment to developers interested in expanding affordable housing or permanent supportive housing for people with disabilities.
- Reducing the reliance on private market landlords who still discriminate against people with disabilities seeking housing

#7 – The CCD Housing Task Force believes that there is clear evidence that a state administered block grant won't work.

There is strong evidence that many state governments do not have the capacity to administer a rental assistance block grant program. Many states are opposed to the block grant proposal because they understand the problems states would be inheriting. Currently, there are states doing a poor job administering the Section 8 voucher program – which does not bode well for the radical changes proposed in H.R 1841. Some states have no experience with the Section 8 tenant based program at all and would be starting from scratch. Many states would have little choice but to work with the same local PHA system now administering the program, which means that HR 1841 creates an additional administrative layer that is not cost effective. Mobility and portability would also be more difficult to administer across states.

These are just few examples of the problems which would be created by a state administered block grant – problems which would cause chaos in the delivery of a $12 billion federal program. People with disabilities who are desperate for federal housing assistance cannot afford to wait until this chaos subsidies – which could take years.

#8 – HR 1841 does not include reforms of Section 8 needed to make the program more responsive to the housing needs of people with disabilities.

The CCD Housing Task Force feels strongly that outside of a proposal to block grant Section 8 as envisioned by HR 1841, there are several reforms that are needed to create greater flexibility and needed improvements so the program can more effectively serve people with disabilities. In particular, CCD supports reforms that would:

- increase local flexibility in setting maximum rents to deal with the ineffectiveness of vouchers in high cost markets (granting PHAs limited authority to increase their Fair Market Rents to a maximum of 120% of the area's fair market rent),
- enhance flexibility to facilitate the use of vouchers in units in lower-poverty neighborhoods that are developed with HOME funds or Low Income Housing Tax Credits,
- provide additional assistance for voucher-holders to find decent and safe housing by authorizing PHAs to use existing funding to provide landlord outreach and education and apartment-search assistance to voucher-holders as well as assistance with security deposits, application fees and credit checks,
- establish a new option for PHAs to turn a limited portion of their available vouchers into lower cost "thrifty vouchers" that can be attached to a new housing development (or to a development that is rehabilitated or preserved), and
- create new options that would make it easier to administer the project-based component of the voucher program and to attach vouchers to buildings to better serve people with severe mental disabilities that have intensive support needs to live in the community.

Conclusion

Mr. Chairman, the CCD Housing Task Force urges Congress and HUD to work together seek solutions to these issues – solutions such as regional administration and improvements to the project based assistance component of the program – which could help more people with disabilities take advantage of the Section 8 voucher program. It is critical that Congress not "throw the baby out with the bathwater" by supporting ill-conceived and flawed proposal to block grant this critically important program. Instead, we urge Congress to work to remove the statutory barriers and regulatory complexity that prohibit better administration by PHAs.

Thank you for the opportunity to share our views with the Subcommittee on this important issue.

Fundamental Housing Policy Reform

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Testimony before the House Committee on Financial Services
Subcommittee on Housing and Community Opportunity
Hearing entitled "The Section 8 Housing Assistance Program: Promoting Decent Affordable Housing for Families and Individuals Who Rent"
June 17, 2003

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Testimony before the House Committee on Financial Services
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Chairman Ney and members of the Housing and Community Opportunity Subcommittee, I welcome this opportunity to talk with you about reform of the Housing Choice Voucher Program. I speak from the perspective of a taxpayer who wants to help the less fortunate members of our society. I have no other interests in the matters under consideration at this hearing.

My views are influenced not only by this perspective but also by my knowledge of the systematic evidence about the effects of low-income housing programs. I have been involved in housing policy analysis since the late 1960s. Since then, I have done many empirical studies of the effects of low-income housing programs, and I have read carefully a very large number of other studies. During the Nixon Administration, I was an analyst on the Housing Policy Review Task Force that led to the Section 8 Certificate Program. As a visiting scholar at HUD during the Carter Administration, I worked on an evaluation of this program and reviewed the final reports from the Experimental Housing Allowance Program. More recently, I have written a paper assessing the adequacy of Fair Market Rents in the Voucher Program, another paper on the consequences for homelessness of income targeting in housing assistance programs, and a lengthy survey of what is known about the effects of low-income housing programs for a National Bureau of Economic Research volume on means-tested transfer programs. I also did a substantial amount of work as a consultant to the GAO on their recent study comparing the cost-effectiveness of tenant-based vouchers and major construction programs such as the Low Income Housing Tax Credit and HOPE VI.

Overview

Project-based assistance is the dominant form of housing assistance to low-income families in the United States. Almost three fourths of families served by low-income rental housing programs receive this type of assistance. HUD provides project-based assistance to more than three million families, the Low-Income Housing Tax Credit serves more than a million families, and the USDA's Section 515 program houses almost a half million families. The Housing Choice Voucher Program is the only U.S. housing program that provides choice-based housing assistance, and even this program now allows housing agencies to devote up to 20% of their HCV budget to project-based assistance.

Project-based assistance forces families to live in particular units in order to receive a subsidy. So it greatly restricts recipient choice among units meeting minimum housing standards. Furthermore, it shields suppliers from market forces. For all practical purposes, owners of subsidized projects do not have to compete for their tenants. This has serious consequences for the cost-effectiveness and other effects of project-based compared with choice-based housing assistance.

The Housing Choice Voucher Program is by far our country's best low-income housing program. It provides adequate and affordable housing for participants at a much lower cost to taxpayers than any other program. It has outperformed other housing programs in every market condition and for every type of family studied. Nevertheless, there is room for improvement in the Voucher Program, and my testimony will address the changes that will lead to the greatest improvement in its outcomes.

The Voucher Program also has an important role to play in fundamental reform of the current system of housing programs for low-income families. The major shortcomings of the system are its excessive reliance on project-based assistance and its failure to provide housing assistance to all of the poorest eligible families who ask for help. My testimony will explain the basis for this judgment and how changes in the Voucher Program can help overcome these shortcomings.

Finally, my testimony will address the Administration's proposal to convert the Voucher Program to a housing block grant to the states and the excessive concern about the Voucher Program's success rate.

Choice-Based Vouchers Outperform Project-Based Assistance

The Housing Choice Voucher Program is by far the most cost-effective program of housing assistance in the United States. Four major studies have estimated both the cost per unit and the mean market rent of apartments provided by housing certificates and vouchers and the largest older production programs, namely Public Housing, Section 236, and Section 8 New Construction.[1] The cost per unit includes the tenant's rent and all direct and indirect costs incurred by federal, state, and local governments. These studies are based on data from a wide variety of housing markets and for projects built in many different years. Two were expensive studies conducted for HUD by a respected research firm during the Nixon, Ford, Carter, and Reagan administrations. They are unanimous in finding that housing certificates and vouchers provide equally desirable housing at a much lower total cost than any of these production programs, even though all of these studies are biased in favor of the production programs to some extent by the omission of certain indirect costs.

Table 1 summarizes the results of these studies. The studies with the most detailed information about the characteristics of the housing provided by the programs found the largest excess costs for the production programs. Specifically, Mayo et al. (1980) estimated the excessive cost of public housing compared to housing vouchers for providing equally desirable housing to be 64% and 91% in the two cities studied and the excessive cost of Section 236 to be 35% and 75% in these two cities. Another study with excellent data on housing characteristics estimated the excessive cost of Section 8 New

[1] The studies are Mayo et al. (1980), Olsen and Barton (1983), U.S. Department of Housing and Urban Development (1974), and Wallace et al. (1981). Olsen (2000) provides a description and critical appraisal of the data and methods used in these studies as well as a summary of their results.

Construction compared to tenant-based Section 8 Certificates to be between 44% and 78% (Wallace et al., 1981).[2]

The recently completed GAO studies produced similar results for the major active construction programs – LIHTC, HOPE VI, Section 202, Section 515, and Section 811. Table 2 reports results based on the conceptually preferable life cycle approach.[3] The excess total cost estimates range from at least 12% for Section 811 to at least 27% for HOPE VI. These estimates are lower bounds on the excessive cost because some costs of the production programs were omitted. Most notably, the opportunity cost of the land and cost of preparing the site were omitted from the cost of HOPE VI projects. These are real costs to society of HOPE VI redevelopment. More generally, some costs of each production program were omitted. For example, some projects under each program receive local property tax abatements. The preceding results ignore this cost to local taxpayers.

It is often argued that production programs work better than tenant-based vouchers in the tightest housing markets. The GAO study contains evidence concerning whether production programs are more cost-effective than tenant-based vouchers in housing markets with low vacancy rates. In addition to the national estimates, the GAO collected data for seven metropolitan areas. The data for the GAO study refer to projects built in 1999. In that year, the rental vacancy rates in the seven metropolitan areas ranged from 3.1% in Boston to 7.2% in Baltimore and Dallas, with a median of 5.6%. The overall rental vacancy rate in U.S. metropolitan areas was 7.8%. So all of the specific markets studied were tighter than average. Only five of the largest seventy-five metropolitan areas had vacancy rates lower than Boston's. In each market, tenant-based

[2] This study made predictions of the market rents of subsidized units based on two different data sets containing information on the rent and characteristics of unsubsidized units. The study did not collect information on the indirect costs of the Section 8 New Construction Program. These indirect subsidies include GNMA Tandem Plan interest subsidies for FHA insured projects and the forgone tax revenue due to the tax-exempt status of interest on the bonds used to finance SHFA projects. Based on previous studies, the authors argue that these indirect costs would add 20 to 30 percent to the total cost of the Section 8 New Construction Program. The range of estimates reported in the text is based on the four combinations of the two predictions of market rent and the lower and upper limits on the indirect costs.

[3] The GAO study also reports first-year excess costs of the production programs. The first-year cost of a production program is the sum of the annualized development subsidies and the tenant rent and other government subsidies during the first year of operation. The GAO estimates of excess cost of production programs based on this method are much higher than estimates based on the life-cycle approach. Olsen (2000, pp. 18-21) explains the shortcomings of first-year-cost methodology and this approach can bias the results in either direction.

vouchers were more cost-effective than each production program studied. Table 3 reports the results for Tax Credit Program. The results for Section 202, 515, and 811 are similar (GAO, 2002, pp.19-20).

Unlike the earlier cost-effectiveness studies, the GAO study did not compare the total cost of dwellings under the different programs that were the same with respect to many characteristics. Instead it simply compared the average cost of dwellings with the same number of bedrooms in the same metropolitan area or the same type of location (metropolitan or nonmetropolitan). It has been argued that the GAO results overstate the excessive costs of the production programs because these programs provide better housing than the units occupied by voucher recipients. Although it is true that units in recently completed projects under construction programs have typically been better than units occupied by households with certificates and vouchers, the existing evidence suggests that this difference is not great. Furthermore, the relevant quality of the housing under a construction program is not its quality when it is new but rather the average quality of housing provided over the life of the project. This quality typically declines substantially over time. The existing evidence suggests that, well before the units in subsidized projects reach the midpoint of their useful lives, they provide housing worse than the housing occupied by recipients of tenant-based vouchers and certificates.

Results from a number of previous studies illustrate these general points. Mayo et al. (1980) estimated separate statistical relationships between market rent and numerous characteristics of unsubsidized units and their neighborhoods for Pittsburgh and Phoenix in 1973 using data of extremely high quality. These estimated relationships were used to predict the market rents of subsidized units under public housing, Section 236, and housing allowances in 1973, and then housing price indices were used to express predicted market rents in 1975 prices. Table 4 reports the results. The public housing units involved were built between 1952 and 1974 and the Section 236 units between 1969 and 1975. So the results for public housing refer to units further along in the lives of their projects than Section 236 units, though none of these units had reached the midpoint of their useful lives. Even when they were quite new, Section 236 units were not enormously better than the units occupied by recipients of housing allowances, and well before the midpoint of their useful lives, public housing units were no better than the units occupied by recipients of housing allowances.

Wallace et al. (1981) used similar methods and data to estimate the market rents of randomly selected Section 8 Existing and New Construction units in 16 randomly selected metropolitan areas in 1979. Although none of the units under the Section 8 New Construction Program were more than a few years old at that time, the difference in the mean market rents of units under the two programs was less than 10 percent, namely $291 per month for Section 8 New and $265 for Section 8 Existing.

David Vandenbroucke's (U.S. Department of Housing and Urban Development, Office of Policy Development and Research) unpublished tabulations based on the 1991 American Housing Survey Metropolitan Sample paint a similar picture. He too used data of extremely high quality to estimate separate statistical relationships between market rent and numerous characteristics of unsubsidized units and their neighborhoods in a number of metropolitan areas and then used these relationships to predict the market rents of public housing units, units in privately owned HUD-subsidized projects, and units occupied by certificate and voucher holders. Table 5 reports the results. In eight of eleven metropolitan areas, the median market rents of the units occupied by recipients of certificates and vouchers was greater than the median market rents of units in public and privately owned HUD-subsidized projects, even though the housing projects had not reached the midpoint of their useful lives. In 1991, the median age of public housing units in the United States was about 23 years and the median age of the units in privately owned subsidized projects was about 14 years. Section 8 New Construction / Substantial Rehabilitation accounts for about half of these units, and the median age of these units was about 10 years in 1991. The median age of Section 236 units, which account for more than a fourth of the privately owned HUD projects, was about 18 years. None of the other privately owned projects were more than 32 years old. In short, the majority of public housing units had not reached the midpoint of their useful lives and the majority of privately owned projects were much younger.

In summary, the available evidence does not support the view that the GAO study understated the cost-effectiveness of the production programs because these programs provide better housing than tenant-based vouchers.

The GAO study will not be the last word on the cost-effectiveness of the programs studied. Improvements in its implementation of the life-cycle methodology are possible and desirable. Indeed, this should be the highest priority for research on housing policy. However, the GAO study provides the only independent cost-effectiveness analysis of these programs.

The bulk of the evidence on the cost-effectiveness of project-based assistance applies to units built or substantially rehabilitated under a subsidized construction program. The Experimental Housing Allowance Program provides evidence on the cost-effectiveness of project-based assistance to existing, previously unsubsidized housing. This is relevant for judging the likely outcome of recent legislation that gives housing agencies the authority to use the Housing Choice Voucher Program for this purpose.

One type of housing allowance tested in the Experiment was essentially identical to the housing voucher program that operated between 1983 and 1998. It offered each eligible family a subsidy that depended on the family's characteristics on the condition that the family occupy a unit meeting minimum housing standards. At the time of the Experiment, HUD operated the national Section 23 Existing Housing Program, the precursor of the Section 8 Existing Housing Program. Under one variant of this program, housing authorities rented existing apartments and sublet them to eligible families. This is analogous to the project-based component of the Housing Choice Voucher Program. Under the other variant called "finders keepers," eligible families found their own units meeting the minimum housing standards. This is analogous to the tenant-based component of the HCV Program.

One of the most important reports of the Experiment compared the total cost to the market rent of units occupied by recipients of the experimental housing allowances and major national housing programs, including the Section 23 Existing Housing Program. The results for one of the metropolitan areas studied provide clear evidence on the cost-effectiveness of tenant-based versus project-based assistance for existing housing (Mayo et al., 1980, pp. 134-139). All Section 23 units in Pittsburgh were leased by the housing authority and sublet to tenants. The ratio of total cost to market rent for these units was 1.67. For example, it cost $835 to rent a unit with a market rent of $500. The ratio for the tenant-based housing allowance program was 1.15.[4] Therefore, it cost 45% more to provide equally good housing when the housing authority negotiated the rent than when tenants found their own units.

This illustrates the powerful role of incentives in determining housing program outcomes. Obviously, recipients of housing assistance have greater incentives than the civil servants who operate housing agencies to get the best housing possible for the money. This swamped other differences between program recipients and administrators in determining the cost-effectiveness of the alternative programs.

Evidence Argues for Exclusive Reliance on Choice-Based Housing Assistance

The preceding evidence combined with other evidence on the effects of alternative methods of delivering housing assistance makes a strong case for total reliance on choice-based assistance.[5] If we compare programs of choice-based and project-based assistance that serve recipients equally well (that is, provide them with equally good housing for the same rent), the project-based programs will serve many fewer families with a given budget. No credible evidence shows that any type of project-based assistance is as cost-effective as choice-based vouchers in any market conditions or for any special groups. Therefore, many eligible families and the taxpayers who want to help them will gain if choice-based assistance replaces project-based assistance.

The magnitude of the gain from shifting from project-based to tenant-based assistance would be substantial. Even the smallest estimates of the excess costs of project-based assistance imply that shifting ten families from project-based to tenant-based assistance would enable us to serve two additional families. Since HUD provides project-based assistance to more than three million families, the Low-Income Housing Tax Credit serves more than a million families, and the USDA's Section 515 program houses almost a half million families, a total shift from project-based to tenant-based assistance would enable us to serve at least 900,000 additional families with no additional budget. The most reliable estimates in the literature imply much larger increases in the

[4] The administrative cost of the housing allowance program was about 15% of the total cost. This implies that landlords of housing allowance recipients received market rents for their units.
[5] See Olsen (2002) for a summary of the evidence on other effects of different housing programs.

number of families served. For example, the Abt study of the Section 8 New Construction Program implies that tenant-based vouchers could have provided all of the families who participated in this program with equally good housing for the same rent and served at least 44 percent more families with similar characteristics equally well without any additional budget.

Two main objections have been raised to exclusive reliance on tenant-based assistance. Specifically, it has been argued that tenant-based assistance will not work in markets with the lowest vacancy rates and construction programs have an advantage compared with tenant-based assistance that offsets their cost-ineffectiveness, namely they promote neighborhood revitalization to a much greater extent.

Taken literally, the first argument is clearly incorrect in that Section 8 Certificates and Vouchers have been used continuously in all housing markets for more than two decades. A more precise version of this argument is that tenant-based assistance will not work well in the some markets because these markets do not have enough vacant apartments that meet minimum housing standards and are affordable to voucher recipients. The conceptual defects of this argument are easy to understand, and it is inconsistent with the empirical evidence.

All vouchers authorized in a locality can be used even if the number of vacant apartments that meet minimum housing standards and are affordable to voucher recipients is less than the number of vouchers authorized. Some recipients offered vouchers already occupy apartments meeting the program's standards. In this case, the family can participate without moving. In the absence of assistance, these recipients typically devote a high fraction of their income to housing and skimp on other necessities. The housing voucher reduces their rent burden. Other families who are offered vouchers will live in housing that does not meet Section 8 standards. However, these apartments can be repaired to meet the standards. Similarly, vacant apartments that do not initially meet the program's standards can be upgraded to meet them. In short, we do not need new construction to increase the supply of apartments meeting minimum housing standards.

The evidence shows that these are not theoretical curiosities. The tenant-based Section 8 Certificate and Voucher Programs have substantially increased the supply of affordable housing meeting minimum housing standards. One detailed analysis is based on data from a national random sample of 33 public housing authorities in 1993 (Kennedy and Finkel, 1994). Thirty percent of all recipients outside of New York City continued to live in the apartments that they occupied prior to participating in the program (Kennedy and Finkel, p.15).[6] Forty one percent of these apartments already met the program's standards and 59% were repaired to meet the standards (Kennedy and Finkel, p.83). About 70% of all recipients outside of New York City moved to a new unit. About 48% of these apartments were repaired to meet the program's standards (Kennedy and Finkel, p.84). The rest moved to vacant apartments that already met the standards. Therefore, the apartments occupied by about half of the families that received certificates and vouchers outside NYC during this period were repaired to meet the program's standards. The previously mentioned sources contain similar results for NYC. In this city, only 31 percent of the apartments occupied by recipients had to be repaired to meet the program's standards.

The Housing Assistance Supply Experiment of the Experimental Housing Allowance Program provides even more powerful evidence on the ability of tenant-based vouchers to increase the supply of apartments meeting minimum housing standards even in tight housing markets. The Supply Experiment involved operating an entitlement housing allowance program for ten years in St. Joseph County, Indiana (which contains South Bend) and Brown County, Wisconsin (which contains Green Bay). These were smaller than average metropolitan areas with populations of about 235,000 and 175,000 people, respectively. The general structure of the housing allowance program in the Supply Experiment was the same as the Section 8 Voucher Program that HUD operated from 1983 until its merger with the new Housing Choice Voucher Program, except that homeowners were eligible to participate in the Supply Experiment. About 20 percent of the families in the two counties were eligible to receive assistance (Lowry, 1983, pp. 92-93). By the end of the third year when participation rates leveled off, about 41 percent of eligible renters and 27 percent of eligible homeowners were receiving housing assistance (Lowry, pp.24-25). Data for analysis was collected during the first five years of the experiment in each site. During that period, about 11,000 dwellings were repaired or

[6] The authors analyzed New York City separately from the other housing authorities.

improved to meet program standards entirely in response to tenant-based assistance and about 5,000 families improved their housing by moving into apartments already meeting these standards (Lowry, p. 24). This represented more than a nine percent increase in the supply of apartments meeting minimum housing standards. Tenant-based assistance alone produced a greater percentage increase in the supply of adequate housing in these localities in five years than all of the federal government's production programs for low-income families have produced in the past 65 years (Cutts and Olsen, 2002, p. 232). The annual cost per household was less than $3000 in today's prices.

The Supply Experiment sites were chosen to differ greatly in their vacancy rates and the size of their minority populations in order to determine whether the outcomes of an entitlement housing allowance program depend importantly on these factors. At the outset of the Supply Experiment, the vacancy rates in Brown and St. Joseph County were 5.1% and 10.6% (Lowry, p. 53). So the average vacancy rate in the two sites was almost exactly the average vacancy rate in 2000 for U.S. metropolitan areas (7.7%). In 2000, only 26% of the 75 largest metropolitan areas had vacancy rates less than the vacancy rate in Brown County at the outset of the experiment and 20% had vacancy rates greater than the vacancy rate in St. Joseph County. The participation rate differed little between the two sites. Indeed, it was higher in the locality with the lower vacancy rate (Lowry, p.122).

We do not need production programs to increase the supply of apartments meeting minimum housing standards. The Experimental Housing Allowance Program demonstrated beyond any doubt that the supply of apartments meeting minimum housing standards can be increased rapidly by upgrading the existing stock of housing even in tight markets. This happened without any rehabilitation grants to suppliers. It happened entirely in response to tenant-based assistance that required families to live in apartments meeting the program's standards in order to receive the subsidy.

Those who express concern about the ability of tenant-based assistance to work well in the tightest housing markets usually mention the low success rates in some localities. In discussing this matter, it is important to distinguish between an authority's so-called success rate and its ability to use Section 8 Vouchers. An authority's success rate is the percentage of the families authorized to search for a unit who occupy a unit meeting the program's standards within the housing authority's time limit. An authority's success rate depends on many factors including the local vacancy rate. The most careful study of success rates (Kennedy and Finkel, 1994) indicates that among localities that are the same with respect to other factors those with the lowest vacancy rates have the lowest success rates.

An authority's success rate bears no necessary relationship to the fraction of the authority's vouchers in use at any point in time. No matter what an authority's success rate, the authority can fully use the vouchers allocated to it by authorizing more families to search for apartments than the number of vouchers available. For example, if an authority has a success rate of 50 percent, authorizing twice as many families to search as the number of vouchers available will result in full utilization of the vouchers on average. If each housing authority adjusted its issuance of vouchers to its success rate in this manner, some authorities would exceed their budget and others would fall short in a given year. However, the national average success rate would be very close to 100 percent.

For many years, public housing authorities have over-issued vouchers and thereby achieved high usage rates despite low success rates. In recent years, they have had a reserve fund for this purpose, and current regulations call for penalties on authorities with usage rates below 95, and more recently 97, percent. According to HUD's Fiscal Year 2002 Performance and Accounting Report, the voucher utilization rate was 94 percent in that year. HUD's Budget Justifications submitted to Congress in February 2003 indicate that they expect the utilization rate to be even higher in 2003 and 2004.

The overwhelming majority of tenant-based certificates and vouchers are in use at each point in time. Even more would be in use if housing authorities were more aggressive in over-issuing vouchers. Although it is true that some families who are offered vouchers do not find housing that suits them and meets the program's standards within their housing authority's time limits, other eligible families in the same locality use these vouchers. This indicates clearly that the problem is not that there are no vacant apartments that meet program standards and are affordable to voucher recipients or apartments whose landlords are willing to upgrade them to meet program standards. In the tightest housing markets, these apartments are more difficult to locate. Unsubsidized families also have trouble locating apartments in tight housing markets.

The real issue is not whether tenant-based vouchers can be used in all market conditions but whether it would be better to use new construction or substantial rehabilitation programs in tight markets. Evidence from the GAO study mentioned earlier indicates that tenant-based vouchers are more cost-effective than production programs even in the tightest housing markets. Another key question is which type of assistance gets eligible families into satisfactory housing faster. The answer is clear. Tenant-based vouchers get families into satisfactory housing much faster than any construction program even in the tightest housing markets. By over-issuing vouchers, housing agencies can put all of their vouchers to use in less than a year in any market conditions. No production program can hope to match this speed.

How long does it take from the time that money is allocated for construction programs to the time that the first units are available for occupancy? Evidence is available for older production programs. Based on data on a national random sample of 800 projects built between 1975 and 1979, Schnare, Pedone, Moss, and Heintz (1982) found the mean time from application for project approval to completion of the project ranged from 23 months for Section 236 to 53 months for conventional public housing. Mean times ranged from 26 to 31 months for the variants of the Section 8 New Construction and Substantial Rehabilitation Program. Occupancy of the completed apartments required additional time. Although the authors did not report results separately for different markets, it seems reasonable to believe that these times were greater in the tightest housing markets because the demand for unsubsidized construction would be greatest in these locations.

The second major objection to the exclusive reliance on tenant-based assistance is that new construction promotes neighborhood revitalization to a much greater extent than tenant-based assistance. The evidence from the Experimental Housing Allowance Program is that even an entitlement housing voucher program will have modest effects on neighborhoods and the small literature on the Section 8 Voucher Program confirms these findings for a similar non-entitlement program (Lowry, 1983, pp. 205-217; Galster, Tatian, Smith, 1999B). These programs result in the upgrading of many existing dwellings, but this is concentrated on their interiors.

It is plausible to believe that a new subsidized project built at low-density in a neighborhood with the worst housing and poorest families would make that neighborhood a more attractive place to live for some years after its construction. The issue is not, however, whether some construction projects lead to neighborhood upgrading. The issues are the magnitude of neighborhood upgrading across all projects under a program over the life of these projects, who benefits from this upgrading, and the extent to which upgrading of one neighborhood leads to the deterioration of other neighborhoods.

The primary beneficiaries of neighborhood upgrading will be the owners of nearby properties. Since the majority of the poorest families are renters, it is plausible to believe that most of the housing surrounding housing projects located in the poorest neighborhoods is rental. Therefore, if a newly built subsidized project makes the neighborhood a more attractive place to live, the owners of this rental housing will charge higher rents and the value of their property will be greater. Since the occupants of this rental housing could have lived in a nicer neighborhood prior to the project by paying a higher rent, they are hurt by its construction. The poor in the project's neighborhood will benefit from the neighborhood upgrading only to the extent that they own the property surrounding the project.

With the passage of time, the initial residents will leave the neighborhood in response to the project and others who value a better neighborhood more highly will replace them. In short, housing programs involving new construction will shift the location of the worst neighborhoods to some extent. The aforementioned possibilities are rarely recognized in discussions of housing policy, let alone studied.

What has been studied is the extent to which projects under various housing programs affect neighborhood property values. The existing studies find small positive effects on average for some programs and small negative effects for others (Lee, Culhane, and Wachter, 1999; Galster, Smith, Tatian, and Santiago, 1999A; Galster, Tatian, and Smith, 1999B). No study finds substantial positive effects on average for any program.

In short, the usual objections to exclusive reliance on tenant-based vouchers have little merit. Tenant-based vouchers can be get recipients into adequate housing faster than production programs even in the tightest housing markets, and they are more cost-effective than production programs in all market conditions. We do not need production programs to increase the supply of adequate housing. Production programs do not have had a greater effect on neighborhood revitalization than tenant-based vouchers. Neither revitalizes neighborhoods to any significant extent.

Proposals to Shift Budget from Project-Based to Choice-Based Assistance

The available evidence on program performance has clear implications for housing policy reform. It indicates that Congress should shift the budget for low-income housing assistance from project-based to tenant-based housing assistance as soon as current contractual commitments permit and should not authorize any new programs involving project-based assistance. The following concrete steps will achieve these results.

First, the money currently spent on operating and modernization subsidies for public housing projects should be used to provide tenant-based vouchers to public housing tenants, as proposed by the Clinton Administration and by Senator Dole during his presidential campaign. To enable housing authorities to provide decent housing despite this loss in revenue, they should be allowed to rent their apartments to any household eligible for housing assistance for whatever rent this market will bear. Families with tenant-based vouchers would occupy many of these apartments. Other families eligible for housing assistance would occupy the rest. Housing authorities could raise additional money by taking advantage of the current regulation that allows them to sell projects. At present, they have little incentive to do it. Without guaranteed federal operating and modernization subsidies, many authorities may well decide to sell their worst projects. These are the projects that will be abandoned to the greatest extent by their tenants with vouchers, and they are the most expensive to operate. They should be sold in their current condition to the highest bidder in order to maximize the revenue available to modernize other projects. If housing authorities are unable to compete with private owners for their tenants, they should not be in the business of providing housing.

Second, contracts with the owners of private subsidized projects should not be renewed. Instead we should give their tenants portable vouchers and force the owners to compete for their business. Tenants who choose to move could be given a modest grant for moving expenses. This is far less expensive than continuing with these costly forms of project-based assistance.[7] It is important to realize that for-profit sponsors will not agree to extend the use agreement unless this provides at least as much profit as operating in the unsubsidized market. Since these subsidies are provided to selected private suppliers, the market mechanism does not insure that profits under the new use agreement will be driven down to market levels. If this is to be achieved at all, administrative mechanisms must be used. Proponents of all previous programs of this sort argued vigorously that their program would insure that excessive costs were not paid for apartments. Cost-effectiveness studies of these programs indicate that they failed miserably. There is no reason to believe that initiatives such as Mark-to-Market will produce better results. We should leave the job of getting value for the money spent to the people who have the greatest incentive to do it, namely, the recipients of housing assistance.

Third, the construction of additional public or private projects should not be subsidized. For example, no additional money should be allocated to HOPE VI. This program is an improvement over traditional public housing in that it avoids concentrating the poorest families at high densities in projects. However, the GAO study reveals that it is highly cost-ineffective compared with tenant-based vouchers that also avoid these concentrations. Similar remarks apply to the Low-Income Housing Tax Credit. Although the GAO results may not be sufficiently compelling to justify immediate termination of this program, they more than justify rescinding the recent indexing of the tax credit for inflation until a careful, independent analysis of the cost-effectiveness of the Tax Credit Program shows that this program is as cost-effective as tenant-based vouchers. Finally, there should be no new production programs. Any additional money for housing assistance should be used to expand the Housing Choice Voucher Program.

[7] See Weicher (1997) for a detailed analysis of vouchering out project-based assistance.

Fourth, Congress should declare a moratorium on further project-based assistance under the Housing Choice Voucher Program until it can consider the results of a study that compares the cost-effectiveness of the already committed project-based vouchers with tenant-based vouchers. Sufficient money should be budgeted for this study to insure that credible results are produced.

Fifth, if Congress decides to convert the HCV Program to a housing block grant to the states, it should require that the entire budget of the program be used for choice-based assistance. Evidence indicates clearly that states would devote the bulk of an unrestricted housing block grant to project-based assistance. The HOME Investment Partnerships Program is a block grant to states and localities that permits either project-based or choice-based assistance. Contrary to the implications of the systematic evidence on the effects of different types of housing programs, states and localities have chosen to spend the bulk of their funds on project-based assistance. In 1995, states allocated 94% of their rental assistance to specific projects (Urban Institute, 1999, p. 86). Left to their own devices, it is reasonable to expect that they will do the same with the proposed block grant. Being close to the people does not provide any insight into the design of efficient housing programs. Therefore, the legislation converting the Voucher Program to a block grant should contain an explicit prohibition on the use of block grant funds for project-based assistance.

Housing Assistance Should Be an Entitlement for the Poorest Eligible Families

Unlike other major means-tested transfer programs, housing assistance is not an entitlement despite its stated goal of "a decent home and suitable living environment for every American family" (Housing Act of 1949). Millions of the poorest families are not offered any housing assistance, while a smaller number of equally poor families receive large subsidies. For example, an assisted family with one child and an adjusted annual income of $8000 living in an area with the average Fair Market Rent would have received an annual housing subsidy of $6000 from the Housing Choice Voucher Program in 2002 if it occupied an apartment renting for the FMR. The majority of families with the same characteristics living in that locality would receive no subsidy from any low-income housing program. Furthermore, the majority of the poorest eligible families are offered no assistance while many families with considerably greater income are assisted. About 34 percent of the families who receive tenant-based vouchers and certificates are above the poverty line, while 70 percent of families below the poverty line do not receive housing assistance from any HUD program.

The non-entitlement nature of housing assistance is a historical accident. Because the first significant housing program for low-income households involved the construction of housing, it was not possible to make it an entitlement for any significant number of families. Building millions of public housing units over a short period of time was infeasible. The income limits for eligibility were not designed to be consistent with the amount of money that the Congress wanted to devote to housing assistance.

Now that vouchers are used to provide housing assistance, the impossibility of building enough units to serve an enormous number of families provides no justification for maintaining a non-entitlement program. Almost all families eligible for housing assistance already live in housing. The majority of these units already meet housing standards. Other vacant units meeting housing standards are available. Many units can be inexpensively upgraded to meet housing standards. Little new construction is needed to provide adequate housing for all of the poorest families who would want to participate in the entitlement housing program that could be funded with the current budget for housing assistance.

In recent times, no one has attempted to explain why we should offer assistance to some, but not other, families with the same characteristics, and no one has provided a persuasive argument for denying assistance to the poorest families while providing it to otherwise identical families in the same locality whose income is two, three, or four times as large. It is often argued that we should not limit assistance to the poorest families because it is desirable to have a mix of incomes in subsidized housing projects. Obviously, this argument is not applicable to tenant-based assistance. Furthermore, the conflict between the desire to serve the poorest families and to avoid concentrating them in projects in programs of project-based assistance can be avoided by vouchering out these programs.

It is difficult to reconcile these features of the Housing Choice Voucher Program and all other low-income housing programs with plausible taxpayer preferences. In thinking about whether housing assistance should be an entitlement, it is helpful to think about how a nonrecipient who pays the taxes to support housing programs feels about dividing a fixed amount of assistance between two families that are identical in his or her eyes.

At one extreme, we could give one of the families the entire amount available for housing assistance. At the other extreme, we could divide it equally between them. The former is inconsistent, and the latter consistent, with plausible assumptions about taxpayer preferences. To say that two potential recipients are the same in the eyes of a taxpayer is to say that the taxpayer is willing to sacrifice the same amount for the same change in the consumption pattern of either family.

It is also reasonable to conclude that taxpayers place the highest value on helping the poorest families. Why else would almost all means-tested housing programs provide the largest subsidy to families with the smallest income?

Another strong argument for an entitlement housing assistance program for the poorest individuals and families is its effect on homelessness. The homeless are the poorest of the poor. Research indicates that an entitlement program of housing assistance for the poorest individuals and families would eliminate homelessness except for the chronic homeless who suffer from serious mental illness and substance abuse (Early and Olsen, 2002, p. 19).[8]

To say that housing assistance should be an entitlement for the poorest families is not to say that they have a natural right to it. Although some people hold this view, many others who think that housing assistance should be an entitlement reject it. They believe that the poorest families are entitled to whatever assistance their fellow citizens are willing to provide. To say that housing assistance should be an entitlement means that any eligible person who asks for housing assistance will get it. To favor an entitlement

[8] The chronic homeless require a more comprehensive approach. Existing supportive housing facilities will certainly be a part of the solution to dealing with these people. Due to the time necessary to determine eligibility, an entitlement housing assistance program for the poorest households will not eliminate the desirability of short-term facilities to house people who would otherwise live on the streets. Although we might want to fund them in a different manner, existing shelters would surely be among the short-term facilities used.

program of housing assistance is to reject the notion that we should provide assistance to one family and deny it to another identical family. Time limits, work requirements, and subsidy formulas that provide greater subsidies to families with some labor earnings rather than no labor earnings are completely consistent with an entitlement housing assistance program. They simply specify what a family is eligible for.

The preceding argues strongly that a program of housing assistance should be an entitlement for the poorest families. The usual argument against making housing assistance an entitlement is that it would be too expensive. Those who make this argument seem to have in mind delivering housing assistance to all currently eligible families using the current mix of housing programs and the current rules for the tenant's contribution to rent. This would indeed increase the amount spent on housing assistance greatly, though this magnitude has not been estimated. However, we do not have to make more than 40 percent of the population eligible for low-income housing assistance, we can reduce the fraction of housing assistance delivered through programs that are cost-ineffective, and we can reduce subsidies at every income level.[9] If we reduce the fraction of the population eligible for housing assistance, increase the fraction of families served by choice-based assistance, and reduce the subsidy at each income level under each housing program, the cost of an entitlement housing assistance program would be less than commonly assumed.

Indeed, it is easy to develop an entitlement housing assistance program with any level of cost desired. For example, we could have an entitlement housing assistance program without spending any additional money by a simple change in the Housing Choice Voucher Program, namely, reducing the subsidy available to each eligible family by the same amount. At current subsidy levels, there are many more families willing and able to use vouchers than can be funded with the current budget. As we reduce the subsidy at each income by the same amount, the number of families who want to participate will decline and waiting lists will shrink. If we reduce subsidies sufficiently and adjust the number of families served so as to spend the same amount on the program, all families who want to participate on the terms offered will receive assistance. We will

[9] See U.S. Department of Housing and Urban Development (2000, Table A-1) for the fraction of households eligible for housing assistance.

then have an entitlement housing assistance program for the poorest eligible families, thereby eliminating the horizontal inequities of the current program.

In discussions of housing policy, a common objection to this proposal is that no one would be able to find housing meeting the program's standards with the lower subsidies. This objection is logically flawed. We start from a position where many more people want to participate than can be served with the existing budget. If we reduce subsidy levels slightly, it will still be the case that more people want to participate than can be served. If we decrease the subsidy levels so much that no one wants to participate, we have decreased them more than the proposed amounts.

A more sophisticated argument against the proposal is that the poorest households will be unable to participate in the proposed program. The simple proposal above calls for reducing the guarantee under the Voucher Program (called the Payment Standard). This is the subsidy received by a household with no income. If the Payment Standard is less than the rent required to occupy a unit meeting the Program's minimum housing standards, then a household whose income and assistance from other sources is just sufficient to buy subsistence quantities of other goods would be unable to participate in the proposed Voucher Program. Previous studies (Olsen and Reeder, 1983; Cutts and Olsen, 2002) have shown that the Payment Standard exceeds the market rent of units just meeting the Program's minimum housing standards in all of the many metropolitan areas and bedroom sizes studied. The median excess varied between 33 to 80 percent between 1975 and 1993. So a considerable reduction in the payment standard could occur almost everywhere without precluding participation by the poorest of the poor. However, the preceding proposal might lead to a particularly low participation rate by these households. This could be counteracted by a smaller reduction in the payment standard combined with an increase in the fraction of adjusted income that tenants are expected to contribute to their rent. For a given program budget, this would yield a higher participation rate by the poorest of the poor and a lower participation rate by other eligible households.

To say that housing assistance should be an entitlement is not to say that it should be designed to insure that all eligible families participate. An entitlement housing assistance program should provide no subsidy to families with incomes at the upper limit for eligibility to avoid the inequity that results from offering families with incomes just below the upper income limit a higher standard of living than families with incomes just above it. This implies that families with incomes just above the income limit for eligibility will be eligible for small subsidies. In order to get this subsidy, they will have to occupy a unit meeting particular housing standards, spend time filling out paperwork and dealing with program administrators, and reveal personal information. These are all inherent in operating a means-tested housing program. Furthermore, few enjoy accepting public or private charity. For all of these reasons, many families will choose not to participate in an entitlement housing assistance program. In addition, some eligible families are not aware of their eligibility.

Although success rates in the Section 8 Voucher Program and participation rates in an entitlement housing assistance program depend on market conditions, these other factors are more important. That is, market conditions explain little of the variation in success rates in the Voucher Program. All other factors combined explain much more. The participation rate in the food stamp program in 1999 was 43% for eligible workers and 70% for eligible non-workers (Blank, 2002, p. 1114). This is not because eligible families could not find a grocery store or because there was no food on the shelves of grocery stores.

What would be the participation rate in an entitlement housing program? The participation rate was less than 50% in the entitlement housing assistance programs operated in the 1970s in Green Bay and South Bend as a part of the Experimental Housing Allowance Program, and it was higher in the metropolitan area with the lower vacancy rate. However, this is not to say that the participation rate in any entitlement housing assistance program would be less than 50%. The evidence from the Experiment indicates clearly that participation depends on the generosity of the subsidy and the program's minimum housing standards. The average annual subsidy in the sites where the entitlement programs were operated was about $3000 in today's prices. The average annual subsidy in the Housing Choice Voucher Program exceeds $6000. So we should expect a higher participation rate with the current subsidy schedule.

Since reducing current subsidies at each income level in the Housing Choice Voucher Program enough to implement immediately an entitlement housing assistance program for the poorest families would excessively disrupt the lives of current recipients, it is essential to phase in this program. Specifically, we could freeze Fair Market Rents at their current levels allowing inflation to erode real subsidy levels and simultaneously increase the number of vouchers authorized so that the budget of the Housing Choice Voucher Program continues to grow at the desired rate. At the current rate of inflation, this will lead to a slow rate of convergence to an equitable system of housing assistance, but it is surely better than maintaining the current system that offers assistance to a minority of families of each type.

Objections to Reducing Fair Market Rents Have Little Merit

Based on past discussions of Fair Market Rents in the Section 8 Existing Housing Program, representatives of housing authorities and many low-income housing advocates will oppose reducing real FMRs. This section explains why the most common objections have little merit.

It has been argued that lower FMRs would make it more difficult to locate a unit meeting the program's standards and thereby reduce the number of families who would want to participate. This argument is implicit in the official rationale for the current system for determining FMRs. According to HUD (1995, p. 1), "HUD sets FMRs to assure that a sufficient supply of rental housing is available to program participants."

Evidence from the operation of the certificate and voucher programs and the Housing Allowance Supply Experiment supports the view that a reduction in FMRs and hence subsidies will reduce the number of families who want to participate. Under the tenant-based Section 8 Program, the percentage of the families authorized to search for a unit who occupy a unit meeting the program's standards within the housing authority's time limit (the so-called success rate) is greatest for families who are eligible for the largest subsidy (Kennedy and Finkel, 1994, pp. 53-60). So the success rate under these programs depends not only on the availability of units meeting the program's standards but also the incentives that families have to locate them, and reducing the FMRs would reduce the success rate. In the entitlement housing allowance programs conducted in the South Bend and Green Bay metropolitan areas as a part of the Housing Allowance

Supply Experiment, the participation rate was greatest for the families who were entitled to the largest subsidies (Lowry, 1983, pp. 116-119). Reducing the subsidy at each income level would have decreased participation rates.

Although reductions in FMRs would reduce the success rate under the current voucher program, it would not prevent vouchers from being used provided that the reductions are not too large. At current subsidy levels, there are many more families willing and able to use vouchers than can be funded with the current budget. When families who are offered vouchers do not find housing that suits them and meets the program's standards within their housing authority's time limit, other eligible families use these vouchers. No matter what an authority's success rate, the authority can fully use the vouchers allocated to it by authorizing more families to search for units than the number of vouchers available.

The effect of Fair Market Rents on success rates has been the dominant consideration in the policy debate concerning their level. The primary reason for this dominance is that housing authorities lobby vigorously for higher Fair Market Rents. Their motivations are easy to understand. With a given number of vouchers allocated to a housing authority, higher Fair Market Rents in a locality allow the housing authorities in that area to provide larger subsidies to their clients at little cost to *local* taxpayers. Higher FMRs also increase the success rates in the area and hence reduce the housing authority's workload without reducing its administrative fee. The same motivations explain why housing agencies use their discretion to set Payment Standards above Fair Market Rents and petition for even higher Payment Standards.[10] In discussions of FMR levels, it is rare for anyone to speak on behalf of the extremely poor families who are not currently offered housing assistance due to the large subsidies received by current recipients.

Advocates for low-income families often make a closely related argument against lower FMRs, namely, that reduced FMRs would force eligible families to spend more time searching for units meeting the program's standards. It is not reasonable to believe that people will behave in this manner. Lower FMRs should reduce the amount of time

[10] About 24% of voucher recipients receive a subsidy based on a payment standard in excess of the local FMR, while only 9% have a payment standard less than the applicable FMR (Finkel and Buron, 2001, Exhibit 3-5).

that each individual searches because this policy change will reduce the benefit of searching for a unit. The subsidy that would be received if the family finds a unit meeting the program's standards will be less. Total search time for all families offered a voucher will increase only if enough additional families are given the opportunity to receive housing assistance and thereby search for a unit meeting the program's standards. If total search time is lower with higher FMRs, it is only because eligible families are denied the opportunity to participate.

A variant of the preceding argument against reducing FMRs is that there are not enough vacant units meeting the program's standards available at rents below current FMRs to serve new program participants. The defects of this argument have already been explained.

Administration's Proposal to Convert HCV Program to Housing Block Grant

The Bush Administration has proposed the conversion of the highly successful Section 8 Housing Choice Voucher Program to a housing block grant to states. S. 947 and H.R. 1841 provide justifications and the details of the proposal.

The official justifications for the Administration's proposal provide little reason to adopt it. The major justification offered by Administration spokesmen and in the proposed legislation is that much of the money that is budgeted for the Voucher Program is not spent. This justification has little merit. First, money not spent is not wasted. It is used for other private or public purposes. Second, almost all money appropriated is spent. According to HUD's Fiscal Year 2002 Performance and Accounting Report, the voucher utilization rate was 94 percent in that year. HUD's Budget Justifications submitted to Congress in February 2003 indicate that they expect the utilization rate to be even higher in 2003 and 2004. Clearly, the penalties on housing agencies with low utilization rates that Congress has enacted since 1999 have had the desired effect. Finally, if housing agencies are spending a fraction of the amount that the Congress wants to spend on this program, there is a much simpler solution to the problem than the Administration's proposal. The Congress can simply increase the program's budget. For example, if Congress wants to spend $14 billion on this program in a year and the utilization rate is 95 percent, Congress should appropriate $14.74 billion. This is analogous to what housing agencies do to insure utilization rates near 100 percent despite the failure of many potential recipients who are offered vouchers to find acceptable units within the specified time. It is analogous to what college admissions officers do to insure the desired class size despite acceptance rates well below 100 percent.

Another justification for the program offered in the proposed legislation is the alleged complexity of the HCV Program. In fact, it is the least complex federal housing program. Furthermore, its complexity is easily reduced. For example, we do not have to allow for Payment Standards outside the range of 90% to 110% of the applicable FMR, and we do not have to allow numerous exceptions to the basic rules for determining income limits for eligibility. Finally, there is no good reason to expect states to structure programs that are less complex.

Jill Khadduri (forthcoming) provides much more persuasive arguments for converting the Housing Choice Voucher Program to a program of block grants to the states in her thorough and balanced analysis of its advantages and disadvantages. In short, she argues that a properly designed and scheduled conversion will improve the portability of vouchers, encourage desirable experimentation with program design, and reduce administrative cost by eliminating multiple housing agencies serving the same area. I have little to add to her analysis beyond emphasizing the importance of several restrictions of the use of the block grant.

In my judgment, if the legislation that converts the Voucher Program to a block grant does not specify explicitly that the money allocated to each state must be used exclusively for choice-based assistance, it will not be in the interest of taxpayers (except the few who are directly involved in provision of project-based housing assistance) and it will be extremely harmful to many of the poorest members of our society. Its advantages will be swamped by the disadvantages of the shift from choice-based to project-based assistance that will surely result from leaving this decision to state housing agencies.

Furthermore, the housing block grant should be used to foster an entitlement by tightening its income targeting requirements and creating incentives for increasing the number of the poorest families served. Simple modifications of the HANF proposal will achieve the desired result. The proposed legislation requires that not less than 75% of families receiving their first payment of tenant-based or homeownership housing assistance within each state have incomes that do not exceed 30 percent of the area median income (presumably with the standard adjustments for family size) but allows the HUD Secretary to waive this requirement based on evidence that is sufficient to convince the Secretary that it should be waived (S. 947 – 7(a)(2), H.R. 1841 – 6(a)(2)). To move towards an entitlement housing assistance program for the poorest households, the fraction of new admissions with incomes less than 30 percent of the local median should be increased, all additional new admissions should be limited to families with incomes less than 50 percent of the local median, and the Secretary's discretion to waive these rules should be eliminated. The proposed legislation also contains performance standards for determining whether states receive their full allotment under the block grant (S. 947 – 6(b), H.R. 1841 – 5(b)). States that serve a greater fraction of families with incomes less than 30 percent of the local median income should receive a higher performance rating. This together with the performance standard dealing with the number of families served will create incentives to reduce subsidies to recipients at each income level in order to increase the number of the poorest families served.

Conclusion

Given the current economic slowdown and the added expense of fighting international terrorism, it is clear that little additional money will be available for housing assistance over the next few years. The question is: How can we continue to serve current recipients equally well and serve some of the poorest families who have not yet been offered assistance without spending more money? The answer is that we must use the money available more wisely.

Research on the effects of housing programs provides clear guidance on this matter. It shows that we can serve current recipients equally well (that is, provide them with equally good housing for the same rent) and serve many additional families without any increase in the budget by shifting resources from project-based to tenant-based assistance. We should learn from our past mistakes and not heed the call for new production programs. Indeed, we should go further and terminate current production programs and disengage from project-based assistance to existing apartments as soon as current contractual commitments permit.

The stated goal of the Housing Act of 1949 is "a decent home and suitable living environment for every American family." It is time that we delivered on that commitment. Contrary to popular opinion, this does not require spending more money on housing assistance. It can be achieved without additional funds by transferring funds from less cost-effective methods for delivering housing assistance to the most cost-effective approach and reducing gradually the large subsidies received by current recipients.

A properly designed and scheduled HANF proposal to replace the Housing Choice Voucher Program with a block grant to states will improve the portability of vouchers, encourage desirable experimentation with program design, and reduce administrative cost by eliminating multiple housing agencies serving the same area. However, if it does not preclude the use of the block grant funds for project-based assistance and at least maintain the current targeting of assistance to the poorest families, it will not be in the interest of taxpayers (except the few who are directly involved in provision of project-based housing assistance) and it will be extremely harmful to many of the poorest members of our society. Taxpayers will get less for their money, and fewer of the poorest families will be helped.

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

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Table 1. **Excess Cost of Older Production Programs**

Program/Study	Localities	Projects Built	Excess Cost
Public Housing			
Olsen and Barton	NYC	1937-1965	14%
Olsen and Barton	NYC	1937-1968	10%
HUD	Baltimore, Boston, L.A., St. Louis, S.F., D.C.	1953-1970	17%
Mayo et al.	Phoenix	1952-1974	64%
Mayo et al.	Pittsburgh	1952-1974	91%
Section 236			
Mayo et al.	Phœnix	1969-1975	35%
Mayo et al.	Pittsburgh	1969-1975	75%
Section 8 NC/SR			
Wallace et al.	National	1979	44%-78%

Table 2. **Excess Cost of Active Production Programs (GAO, 2001, Life Cycle Approach)**

Program	Excess Cost
Low-Income Housing Tax Credit	16%
Hope VI	27%
Section 202	19%
Section 811	12%
Section 515	25%

Table 3. **Excess Cost of Tax Credits in Markets With Different Vacancy Rates (GAO, 2002, Life Cycle Approach)**

Metropolitan Area	Vacancy Rate	One Bedroom	Two Bedroom
Baltimore	7.2%	24%	24%
Boston	3.1%	6%	19%
Chicago	6.5%	34%	25%
Dallas/Fort Worth	7.2%	21%	21%
Denver	5.6%	40%	21%
Los Angeles	5.1%	11%	21%
New York	4.7%	21%	17%
All Metro Areas	7.8%	19%	14%

Table 4. **Market Rents of Units under Production Programs in Their Early Years Compared with Voucher Units**

City	Program		
	Section 236	Public Housing	Housing Allowance
Pittsburgh	$1826	$1748	$1626
Phoenix	$2417	$1918	$2084

Table 5. **Median Monthly Market Rents of Subsidized Units (1991)**

City	Program		
	Voucher and Certificate	Privately Owned Projects	Public Housing
Atlanta	$505	$400	$328
Baltimore	$460	$458	$373
Chicago	$475	$550	$440
Columbus	$375	$395	$340
Hartford	$593	$570	$543
Houston	$365	$325	NA
New York	$605	$578	$520
Newark	$568	$570	$500
San Diego	$480	$410	NA
Seattle	$475	$455	$445
St. Louis	$403	$378	$380

Testimony on Section 8 Voucher Block Grant
before the
Subcommittee on Housing and Community Opportunity
House Committee on Financial Services
by
John Sidor, The Helix Group

June 17, 2003

Chairman Ney, Ranking Member Waters, and other Members of the Subcommittee, my name is John Sidor. I am a public policy and management consultant, focusing primarily in housing and community development, and I am also an adjunct faculty member in the Graduate Program in Strategic Leadership at Mountain State University in Martinsburg, West Virginia. I thank you for the opportunity to testify on H.R. 1841 and the voucher program. While I believe the Section 8 voucher program may be the most powerful tool in the national housing policy toolbox, I also believe it is a tool that underperforms, perhaps to a substantial degree.

Twenty-five years of experience in the housing and community development field lead me to believe three key characteristics heavily influence the making of national housing policy, and I hope that this subcommittee can avoid these.

- We tend to look over our shoulders, at what happened yesterday, spending most of our time identifying problems and determining how to fix these problems. Often, however, by the time these fixes are legislated, enacted, and implemented they, too, become problems that need to be fixed. It seems we rarely look ahead to the future, to design a housing policy or program to meet a changing world.

- We tend to focus on one program, even one sub-program, at a time, such as HOME, tax credits, public housing development, or vouchers, and rarely consider how these and related programs actually or potentially relate to one another. We carve out very specific definitions or delineations of the broad issue of housing and deal with housing from a narrow perspective. Each of these "carve-outs" becomes institutionalized, accreting over time, and increasingly making it extraordinarily difficult to change significantly any given program. Innovation occurs, thus, only through new policies and programs and not through major adjustments in extant programs and policies. In the long run, however, this complicates housing's Gordian knot of policies and programs.

- We focus on housing as an end in itself, assuming that if people are housed in adequate housing at reasonable prices and if this housing is located in pleasant-looking neighborhoods, we somehow have solved the problem. Housing is a policy area where outputs invariably are treated as outcomes.

Two Key Issues in the Voucher Program

I believe housing vouchers underperform for two overlapping reasons: the geography of housing vouchers and the relative isolation of vouchers.

The Geography of Housing Vouchers

The problem of geography has two important facets. One facet, a facet that I think is a major policy flaw undergirding all our housing policy, is the disconnect between where housing is made available and where employment opportunities are for people with modest levels of skills and education. Even more important and troubling for housing policy are the dynamics of employment location, which operate independent of organizational service areas and institutional jurisdictions.

Housing but no jobs, jobs but no housing. The table in the appendix to my statement shows data for seven metropolitan areas: Baltimore, Richmond, St. Louis, Denver, Nashville-Davidson, New Orleans, and Philadelphia. These areas were chosen simply because good job data is easily accessible for the central cities. Baltimore, Richmond, and St. Louis are the only typical central cities for which the Census Bureau regularly tracks jobs. Denver, New Orleans, and Philadelphia were selected because they are typically thought of as central cities although they are also single counties, and because they are counties, regular job data is available. Because of consolidation, Nashville-Davidson is considered both a single county and a central city. But Baltimore, St. Louis, and Richmond represent the more typical examples of central cities that also are not single counties. Further, because of city-county separation, the Richmond data illustrate a pattern that might frequently occur if job data were regularly available at the city level.

The table shows that almost without exception the central city has many fewer jobs per voucher than do other jurisdictions in the region. In other words, *generally areas with more jobs have fewer vouchers and areas with more vouchers have fewer jobs.* The data are particularly striking for Richmond (especially if one ignores the inner suburbs of Hopewell and Petersburg), Baltimore, Philadelphia, and New Orleans.

When job dynamics are considered, the net change in jobs between 1990 and 2000, the data become compelling in a red-flag kind of way. With the possible exception of Nashville-Davidson, central cities, relatively speaking, have an extraordinarily high number of vouchers relative to net job growth compared to other jurisdictions in the regions. In part this is due to central cities losing jobs or just about remaining stable in the number of jobs while the suburban areas experience very high net job growth. *Areas that now and in the foreseeable future are likely to be the major job generators in tend to fare very poorly in receiving housing assistance.*

One may try to dismiss the housing availability - job availability issue for a number of reasons. One may argue that housing assistance should flow to where poor people are and be unconcerned with the location of employment opportunities. *But even if one were to argue that housing subsidies should be solely a poverty benefit, the data show the ratio of poor people to vouchers is usually higher outside the central city*, with Philadelphia being the major exception. Using the number of people in poverty is not as effective as using the number of households in poverty since housing is allocated to households and not, per se, people. But given the unavailability of household poverty data, it serves as a decent proxy. The table suggests that, by and large, a disconnect exists in the distribution of vouchers and the distribution of poverty population.

One may argue that there should be no policy connection between employment and earnings on the one hand and the availability of housing subsidies on the other. This is clearly the case for housing for elderly and probably many, if not most, disabled populations. But nearly 70 percent of vouchers are held by households with children. I argue that especially for family households policy should connect housing subsidies with employment and earnings. *At its root, the housing affordability problem is primarily an earnings-income problem and not a housing cost problem. We will never have enough money to "house" our way out of housing affordability problems.*

Housing policy should have as a key objective the increasing of turnover or velocity in housing subsidies due to people not needing or needing much less housing subsidy as they increase their employment and earnings. I do not know what the numbers would be, but increasing the housing assistance turnover rate by 50 percent will likely lead to serving more new households compared to the new households assisted through the incremental additions to housing assistance that occurs through the appropriations process.

The housing and employment-earnings nexus is a complicated one; and locating housing assistance in areas proximate to jobs, especially job growth areas, is not a magic arrow that will solve all such problems. But given 1) the extraordinary complications and difficulties that occur in developing transportation connections between areas of poverty (or areas with substantial amounts of subsidized housing) and areas of job opportunities, 2) that the growth of jobs that can be accessed by people with model levels of education and skills increasingly occurs outside the central city, and 3) how very difficult, if not impossible in the longer term, it is to create subsidized jobs in the face of strong market inclinations that are otherwise, such location considerations should be an important arrow, albeit one among several, in the quiver in housing policy.

An additional consideration to the geography of the housing and employment-earnings nexus is that areas of job growth and, perhaps to a lesser extent, areas with high job levels tend to be areas with better overall quality of life than areas with low levels of jobs and, especially, declining job opportunities. These considerations should weigh heavily in considering the location of housing assistance for families with children.

Don't look at vouchers alone. Notwithstanding the above considerations, it would be a mistake simply to examine only voucher distribution. In all seven metropolitan areas identified in the appendix the percentage of the metropolitan area's public housing units that are located in the central city is much higher than the central city's share of vouchers. While New Orleans has 64 percent of the region's vouchers, it has 91 percent of the region's public housing units. Denver has 46 percent of the region's vouchers but 82 percent of its public housing units; St. Louis, 35 and 83; Baltimore, 58 and 86; Nashville-Davidson, 71 and 82; and Philadelphia, 58 and 87. In the Richmond region, all of the public housing units are in the central city of Richmond (81 percent) or the inner suburbs of Hopewell and Petersburg.

Additionally, other research suggests that tax credit units for families are disproportionately found in central cities, especially when compared to areas outside the central city county. Further, while the distribution of HOME-funded units is unavailable, the HOME funding formula heavily biases funding allocations to older, denser jurisdictions with relatively high percentages of poverty. For example, in the Richmond region only Richmond and Henrico and Chesterfield counties are local participating jurisdictions. For FY 2001, Richmond received $1,035 per capita and $186 per poor child in HOME funds compared to $168 per capita and $84 per poor child for Chesterfield County and $272 per capita and $113 per poor child for Henrico County.

The concentration of various kinds of assisted housing resources in localities with relatively high rates of poverty and relatively low job levels and/or low job increases creates an implicit, perhaps even a subtle, dynamic. And it is a dynamic that has become increasingly significant. If one assumes, say, a 10 percent turnover rate in assisted housing, in, for example, vouchers, public housing, tax credit housing, and HOME-financed housing, then areas presently with a large cache of assisted housing become much better off in the future ("better off" meaning having more housing assistance) because turnovers by and large produce more housing assistance than incremental (new) increases in housing assistance.

This dynamic has two policy implications. First, making major adjustments in the geographical distribution of incremental housing assistance still will leave localities that now have large caches of assisted housing the ability to offer assisted housing to a significant numbers of new recipients. In such a change housing development organizations and organizations that rely heavily on administrative costs associated with incremental housing assistance will probably suffer the most adverse consequences; the impact on poorer households is apt to be minimal.

Second, poorer households that now are not well served by housing resources due to current geographical distribution problems will be much better off. And to the extent that these geographically redistributed housing resources are used by poorer people now living in poverty concentrated areas or job-poor areas — either through the growing awareness of the availability of such housing opportunities elsewhere or through programs explicitly designed to make these connections— they also are apt to be much better off. Of course, given the current minimal increments of housing assistance, these changes will become significant only over time. What is envisioned is a not a shift of 30 degrees, much less 180 degrees, but of a couple of degrees that over time can do a better effect assisted housing - employment linkages.

Without question, national housing policy generally distributes housing resources to areas with relatively low levels of jobs and/or relatively low levels of job growth. One can plausibly suggest that one of the key reasons poverty rates are so high in cities like St. Louis or Philadephia or many other central cities or inner suburbs is because of the relatively huge cache of subsidized housing compared to the relatively weak and/or declining job base of those cities. *One cannot pick up and move asset-based housing, but one can encourage the distribution and use of vouchers in locations that are more amenable to employment and earnings opportunities.* Given that few, if anyone, can determine where appropriate land uses will be 30 or 40 years in the future, it is almost folly to depend heavily on site-anchored housing assistance.

No vouchers at all. *Unfortunately, one cannot move to what this analysis would call a more effective geographical distribution of housing vouchers in the current institutional framework,* which is highly monopolistic. This situation exists not because of the explicit manipulation of current voucher administering agencies. It is simply that these organizations tend to have very limited geographical service areas. Both the difficulties and costs of portability and the desire to assist one's own customers add to this geographic problem.

One of the most noticeable aspects about the table in the appendix, and this is the other facet of the geographical location problem to which I earlier referred, is that there are some jurisdictions that have no vouchers because there no local organizations to administer them. In the Richmond region, Chesterfield, Dinwiddie, Goochland, Hanover, Henrico, Powhatan, and Prince George counties have vouchers, small in number as they may be, because of allocations from the state. Likewise, in Tennessee, Cheatham, Robertson, Sumner, Williamson, and Wilson counties have only state-allocated vouchers; and the same for Douglas County in Colorado. In each instance where states have provided vouchers to localities within a metro area, i.e., Virginia, Colorado, and Tennessee, the impact has been to improve geographic distribution. Although voucher portability recently has been emphasized, little evidence exists to show more than very marginal effects. Absent a local public housing authority, nearly all voucher-eligible households have access to vouchers only through state administration.

The Isolation of Vouchers

A second significant shortcoming of vouchers is their relative isolated use. The evidence here tends to be anecdotal or cursory. To an extent, this isolation refers to isolation from other housing resources, such as HOME and tax credits. More specifically, however, it refers to the relative lack of linkage of vouchers to human development resources. To encourage this linkage, the federal government often has had to create setasides or special additions to vouchers, whether these linkages be to welfare to work, family unification, developmental disabilities, homelessness or self-sufficiency. These special uses tend to be small and even when part of the more broad-based voucher resource, such as with the Family Self-sufficiency program, progress or effectiveness largely seems minimal. And these special programs reinforce the more general and I think more important point of "plain vanilla" vouchers, most of the vouchers in use, being unconnected to resources that over time could substantially lessen or even eliminate the need for housing assistance by voucher holders. And in saying this I am not implying that the use of such resources should be limited to, or even focused on, welfare recipients.

Two causes for this relative isolated use of vouchers can be suggested. First, nearly all the organizations that administer the voucher program are narrowly-focused housing agencies, with most not actively participating in the tax credit, HOME, McKinney, mortgage revenue, or Community Development Block Grant programs. Further many, perhaps most, voucher administering agencies have geographical service areas that correspond to their municipality; and most of these are relatively independent of municipal general purpose governments. Yet, nearly all mainstream human development resources are based in state and to a lesser extent, county and regional (multi-county) organizations (the advent of both TANF and the Workforce Investment Act have increased the number of multi-county delivery organizations, as states increasingly act on the fact that nearly all labor markets are multi-county). It is at best difficult for organizations that have a municipal geographic scope, especially when they are not integral to local general purpose government, to actively engage in coalitions and partnerships with mainstream human resource development deliverers.

Second, as mentioned earlier, housing policies and programs generally see housing as an end in itself, and view housing outputs as housing outcomes. In this context, organizations that administer housing resources are oriented to trying to use these resources efficiently, and this translates to using the resources as simply as possible, resulting in plain vanilla housing programs. And this view of turning housing resources into housing outputs as simply as possible is reinforced greatly when the amount of housing resources administered is fairly small. Using housing resources in other than plain vanilla ways requires much more in the way of leadership, managerial, and administrative resources. If there are no economies of scale in administering housing resources, there is much less opportunity to gather the extra resources to pay for the extra costs, and, in the beginning at least, the inefficiencies that usually accompany moving in new, innovative ways, even if these ways end up being much more cost-effective in the long run.

Does a State Voucher Block Well Address These Issues?

My perception is that tinkering with the current voucher framework will not address well the two critical issues of geography and isolation and that the practical options to the current set of institutions are limited. One option is for housing to embark on workforce development-type regional delivery system, as was done successively through CETA, JTPA, and WIA. But CETA embarked on fairly virgin territory with regard to employment training/development initiatives, and the housing field in anything but virgin in this regard. It would be impossible to initiate such a regional delivery system in housing and, although WIA has brought about improvements, workforce investment boards still are too often single county and, in some instances, single city.

Another option is to build on current regional organizations. One sub-option in this regard is to provide preference to effective multi-county organizations that have a track record of designing and implementing effective human resource development services and could staff up, if need be, to undertake housing. While some workforce development boards may move to become voucher providers in this scenario, most probably will not both because they have little experience with housing and may have their plates full with workforce development. Another sub-option is for HUD to RFP vouchers to a variety of existing or new organizations, with a very strong preference given to multi-county organizations and a preference to organizations that are involved in human resource development. While some such organizations may exist, most others would probably be cobbled together in response to such an RFP. HUD would be in a position to decide the relative merits of such applicants and probably also would be left with holes and gaps in coverage in most metropolitan areas. This last sub-option especially would require a long start up time, although it appears to be the option chosen in the voucher block grant bill if states opt not to administer the voucher program.

Almost by default it seems that states may be the best option. I will give several reasons for this but then close with some cautionary observations.

Why State Administration?

First, according to HUD's public housing data base in May 2003 33 states administered nearly 187,000 vouchers, and 28 states each administered more than 500 vouchers. Among these 28 states, the average number of vouchers administered is about 6,600. In addition to these 28 states, two states make significant use of their HOME funds for tenant-based assistance. Thus, there is a good-size core of states on which to build a voucher block grant. When coupled with the fact that nearly every state administers the HOME, CDBG, McKinney, tax credit, and mortgage revenue bond programs and that nearly all the state voucher administering agencies administer three or more of these programs, *one gets a sense that voucher administration would be nestled in a multiplicity of housing programs, unlike the current institutional framework for vouchers.*

Second, and perhaps most important, the characteristics of state voucher delivery systems lend themselves to overcoming one or both of the key issues of geographic distribution and isolation.

States generally administer the voucher program through contracts to other organizations, or through state agency field offices, or through some combination. When contracting with other organizations states generally use a wide variety of organizations and/or organizations with multi-county service delivery areas. For example, Virginia uses 11 community action agencies, 14 city or county departments of housing or community development, four county boards of supervisors, 13 county social service agencies, a variety of nonprofit housing service or development agencies. New York uses even a more broad array of organization types, including several local public housing authorities. Colorado uses a variety of nonprofit human service agencies along with local public housing authorities, county social service agencies, and councils of governments. Montana uses human resource development councils, community action agencies, and local public housing authorities. In Indiana, Connecticut, and Colorado, voucher administering agencies are state human service agencies. *In other words, much of the state voucher delivery system is already structured to include or easily access human development resources.*

And in the relatively few instances where state use of human resource development organizations as voucher delivering agencies may not be substantial most states tend not to run plan vanilla voucher programs. Most states run a voucher program related to welfare to work (either a state-initiated program and/or the federal setaside); to the Family Self-sufficiency program; to homeless persons; to persons needing various kinds of health-related supports; and to those involved in education and training programs. Especially impressive for its links, mostly state-initiated, to a variety of support services is Massachusetts voucher program where in addition to Family Unification, Mainstream, a wide variety of services related to difficult-to-serve homeless populations, and welfare to work, the state has voucher programs that provide enhanced services to AIDS victims, to people needing community mental health services, and to elderly and near-elderly households who raise young children.

The point of this is not that many local public housing agencies don't have similar programs; some, perhaps many do, but that these kinds of service and support linkages tend to be the norm for most state voucher programs. And these expansive linkages tend to occur in state-administered programs for three reasons:

- The voucher delivery network of states usually encompasses a range of service-related organizations,
- State agencies work in a policy context where mainstream human development resources also are state-based, and
- States have some economies of scale that facilitate innovation, including service linkage. Another example of this is the relatively large share of states, compared to local public housing authorities, that have implemented homebuyer programs within their voucher programs.

Another aspect of most state delivery systems is that they are multi-county or even statewide. For example, Montana covers the entire state with its administration of the voucher program using 10 contractors each serving at least three counties (the exception is a local housing authority that for purposes of the state voucher program services an area 10 miles outside the city's limits). Massachusetts works statewide; Colorado covers three-fourths of its counties; Georgia serves all but 10 of the state's 159 counties; New Jersey uses field office staff in 18 of the state's 21 counties.

The geography of state voucher administration has two important policy implications. First, states reach into areas where there are no local public housing agencies and can easily solve many geographical allocation issues that HUD working through local public housing authorities cannot. Second, states substantially ease portability problems, in part through the geography of their service area but also in part because of their policies. For example, Colorado administers portable vouchers in numerous counties where housing authorities do not exist. New Jersey absorbs all the costs of all incoming vouchers that are received from other public housing agencies, and the state has won a HUD best practices award for its regional mobility program. Georgia reports that for fiscal year 2002, 1,193 families (about eight percent of its voucher recipients) either entered or exited the jurisdictions in which it managers vouchers, a significant percentage because it services 149 of the state's 159 counties. And as a final example, Michigan's policy encourages voucher holders to use rental assistance outside of concentrated areas of poverty and to this end the state places on its web site maps of nearly 100 cities and counties in which the "areas to expand beyond" are identified so that voucher recipients know in which neighborhoods they should seek housing.

Finally, it's important to raise another aspect, or possible consequence, of state voucher administration in light of HUD's need now to contract with over 2,000 local public housing authorities. A good example of this administrative simplification, which also produces economies of scale and geographic coverage, is shown in the neighboring states of Alabama and Georgia. Alabama, which does not administer vouchers, has 149 local public housing authorities, one for every 4,700 residents in poverty. Of the 149, 108, or 72 percent, each administers fewer than 250 units of public housing and of these 108 small housing authorities only 36 manage vouchers, averaging 110 vouchers per housing authority. In contrast, Alabama's neighbor, Georgia, has 199 local public housing authorities, one for every 5,200 poor residents. Of the 199, 147, or 74 percent, manage fewer than 250 public housing units. Yet of these 147 small housing authorities only two administers the voucher program, one for 1,538 units and one for 96 units. Georgia's management of the voucher program through its five regional offices nearly eliminates diseconomies of scale and provides for complete geographic coverage as the state's program covers all but 10 of the state's counties, with those 10 counties served by their local public housing authority.

What Might Happen?

In summary, it seems to me that state voucher administration is both the best and most practical way to overcome the critical issues of geography and isolation as well as to produce economies of scale in service delivery. But the extent to which states opt to administer the voucher program is a very open question, the answer depending in part of how flexible and simple the program is, administrative cost provisions, and the federal government's expressed commitment to continuing to fund the voucher program at a level that at a minimum ensures funding for the current number and type of vouchers and voucher recipients.

The vague funding commitment in the current bill may present a problem for states considering whether to accept a voucher block grant. And the other key problem perhaps is the requirement for a five-year status quo for current voucher recipients. As several witnesses before this subcommittee have testified, this can be an administrative nightmare. An alternative is to provide for a two-year status quo commitment, including keeping for these two years the current income targeting requirements. This would give states two years of running a voucher program largely similar to today's program and time to develop policies and organizational arrangements to move to a much more flexible block grant.

Although it is not primarily my purpose to comment on some of the details of the voucher block grant outline, I do want to raise or suggest some points for future consideration.

- States should be able to craft different voucher policy priorities in different parts of the state and should not have to operate uniform policies. It may be critical, for example, to give priorities to battered spouses in one part of the state, to people working while taking adult education in another part of the state, and to people with disabilities in another part of the state.

- State should be able to opt to use HQS in lieu of local codes.

- The issue of project-basing needs to be squarely addressed and given that the voucher program is a tenant-based assistance program, I would argue that the current limits, if not a tightening of these limits, be put in place.

- States should determine the appropriate delivery network.

- States should have no time limit, or at least an extended time limit, in choosing when to administer the voucher block program. These are not easy decisions, and even in the Small Cities Community Development Block Grant Program, states opted for administration largely over a three-year period (and some took even longer).

Even with this scenario I think we are looking at a transition to a flexible block grant that will occur only over time. States probably will opt for administration only gradually, and I would not be surprised if after three years of enactment many states still had not opted for the voucher block grant. I think this is good in the sense that states will opt for administration only when they feel confident about the program, their administration of the program, and the goals they wish to achieve with the program. My guess would be that many states would make use of larger and effective local public housing authorities for administration of the vouchers within a state policy framework. Further, my guess would be that states will make gradual changes year to year in the program punctuated periodically by larger, more innovative changes.

Contrary to many who earlier have testified before this subcommittee, I foresee a housing voucher block grant producing no cataclysmic shattering upheavals in housing but a responsible transition over time to a program that 1) deals well with the geographic distribution issues, providing to recipients improved access to employment opportunities and higher quality communities; 2) better integrates vouchers with other housing resources but more especially with human development resources; 3) creates value in ways not now anticipated; and 4) in the process creates economies of scale in voucher administration. And the need for a state voucher block grant rests primarily on the need to address the problems of geographic distribution and isolation.

Appendix

Distribution of Vouchers, Jobs, and Poverty in Seven Metropolitan Areas

Metro	Locality	Sec 8V 2003	Modified Jobs 2000	Net Job Change 1990-2000	Poverty 1999	Jobs/ Voucher	Job Change/ Voucher	Poverty/ vouchr
Richmond	*Richmond*	*2,746*	*147,689*	*-15,280*	*33,391*	*53.8*	*-5.6*	*14.6*
	Hopewell	275	7,960	998	3,193	18.9	0.9	8.7
	Petersburg	742	13,757	650	6,211	29.5	3.6	11.9
	Colonial Heights	0	9,973	3,460	954	NA	NA	NA
	Charles City	0	1,434	1,183	640	NA	NA	NA
	Chesterfield#	524	78,715	17,836	13,207	156.3	34	22.1
	Dinwiddie#	95	4,382	3,421	2,243	51.3	36	23.0
	Goochland#	27	3,222	1,043	1,114	122.7	38.6	39.6
	Hanover#	70	33,372	9,869	3,530	488.5	141.0	43.8
	Henrico#	169	126,345	63,616	17,530	878.1	376.4	94.2
	New Kent	0	2,187	791	676	NA	NA	NA
	Powhatan#	61	5,115	3,704	1,035	84.8	60.7	18.6
	Pr. George#	134	4,357	30	2,163	32.8	0.2	16.7
Baltimore	*Baltimore City*	*13,975*	*278,168*	*-12,783*	*116,916*	*19.9*	*-0.9*	*10.3*
	Anne Arundel*	2,008	169,957	39,047	24,961	84.6	19.4	12.1
	Baltimore	5,554	291,116	12,215	49,875	52.4	2.2	8.6
	Carroll*	838	41,917	6,221	6,475	50.0	7.4	6.7
	Harford*	1,007	56,781	19,500	11,944	56.4	19.4	10.6
	Howard	701	122,316	44,680	9,629	174.5	63.7	13.5

	Queene Anne	136	9,344	3,513	2,540	68.7	25.8	18.7
St. Louis	*St. Louis City*	*5,406*	*232,698*	*6,047*	*76,790*	*43.0*	*1.1*	*15.4*
	Crawford	0	4,864	370	3,570	NA	NA	NA
	Franklin	1,030	31,105	6,622	7,559	30.2	6.4	6.3
	Jefferson	0	34,930	9,414	14,406	NA	NA	NA
	Lincoln	2,734	6,800	2,724	3,678	2.5	1.0	1.2
	St. Charles	265	89,703	37,225	12,377	338.5	140.5	42.2
	St. Louis	6,189	535,729	27,391	79,022	86.6	4.4	11.1
	Warren	0	5,573	1,481	2,098	NA	NA	NA
Denver	*Denver**	*6,261*	*369,014*	*78,570*	*77,813*	*58.9*	*12.5*	*12.4*
	Adams*	1,811	121,554	45,641	32,036	67.1	25.2	17.7
	Arapahoe*	2,145	249,331	132,254	27,987	116.2	61.7	13.0
	Douglas#	41	35,493	28,896	3,706	865.7	704.8	90.4
	Jefferson*	3,415	172,824	49,245	26,821	50.6	14.4	7.9
Nashville-Dvdn	*Nashville-Dvdsn**	*5,430*	*363,726*	*73,860*	*70,960*	*67.0*	*13.6*	*13.1*
	Cheatham#	21	6,642	3,030	2,635	316.3	144.3	125.5
	Dickson	644	13,009	5,018	4,334	20.2	7.8	6.7
	Robertson#	121	13,717	4,626	4,840	113.4	38.2	40.0
	Rutherford*	797	69,586	25,584	15,808	87.3	32.1	19.8
	Sumner#	407	34,027	10,176	10,463	83.6	25.0	25.7
	Williamson#	33	64,322	38,029	5,933	1,949.2	1,152.4	179.8
	Wilson#	196	25,443	10,413	5,847	129.8	53.1	29.8
New Orleans	*Orleans*	*7,427*	*197,858*	*4,494*	*130,896*	*26.6*	*0.6*	*17.6*
	Jefferson*	3,314	207,098	43,204	61,608	62.5	13.0	18.6

	Plaquemines	0	11,492	-299	4,682	NA	NA	NA
	St. Bernard	280	13,704	2,674	8,687	48.9	9.6	31.0
	St. Charles	305	17,368	4,222	5,424	56.9	13.8	17.8
	St. James	0	5,464	523	4,328	NA	NA	NA
	St. John Baptist*	211	11,033	2,997	7,114	52.3	14.2	33.7
	St. Tammany*	70	49,870	22,662	18,336	712.4	323.7	261.9
Philadelphia	*Philadelphia*	*16,519*	*560,734*	*-5,910*	*336,177*	*33.9*	*-0.4*	*20.4*
	Bucks	3,399	235,134	40,217	26,562	69.2	11.8	7.8
	Chester	1,521	173,901	30,028	22,032	114.3	19.7	14.5
	Delaware*	4,115	198,766	17,784	42,411	48.3	4.3	10.3
	Montgomery	2,814	444,963	66,020	32,215	158.1	23.5	11.4

The voucher numbers for local public housing authorities are from the US Department of Housing and Urban Development's public housing authority profiles data base (http://pic.hud.gov/pic/haprofiles). These data are self-reported, dated either May 2003 or June 2003, and are for vouchers managed, not necessarily where vouchers are used.
The vouchers for these counties are distributed solely by the respective states. Louisiana and Pennsylvania administer no Section 8 vouchers; Maryland distributes Section 8 vouchers only to areas not served by a housing authority; Missouri administers a very small number of Section 8 vouchers and no information is available on their distribution. Information on the allocation of state vouchers is from the web sites of the administering agencies, current for 2003.
* The Section 8 voucher figures for Anne Arundel County include those of the Annapolis Housing Authority; for Carroll County, the Westminster Housing Office; and for Harford County, Havre De Grace Housing Authority. Voucher figures for Adams County incudes those of the Brighton Housing Authority; for Arapahoe County, the Littleton, Englewood, and Aurora housing authorities; and for Jefferson County, the Lakewood and Arvada housing authorities. Voucher figures for Rutherford County include vouchers for the Murfreesboro Housing Auhtoority; for Sumner County, the Gallatin and Portland housing authorities; and for Williamson County, the Franklin Housing Authority. The voucher numbers for Jefferson Parish include vouchers of the Kenner Housing Authority; for St. John the Baptist Parish, the Covington Housing Authority; and for St. Tammany Parish, Pearl River Housing Authority.
Jobs are private, non-farm employment from the Census Bureau's County Business Patterns data base. Modified jobs are total non-farm employment minus 1) management jobs, 2) jobs in the information sector, and 3) one-fourth of the jobs in the finance sector for 2000. Jobs in these three sectors are wholly or substantially high paying jobs unavailable for people with modest skill and education levels. Because of significant classification changes, the net job data are total jobs and not modified jobs. Relatively speaking, this tends to increase the net job figures more for central cities as central cities tend to have relatively more jobs in the management, information, and finance sectors.
The poverty figures are for 1999 per the 2000 Census.

Congressional Testimony of

Margery Austin Turner,
Director, Metropolitan Housing and Communities Center, The Urban Institute,
on the Federal Housing Choice Voucher Program: Strengths and Challenges

Committee on Financial Services,
Subcommittee on Housing and Community Opportunity
United States House of Representatives
June 17, 2003
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room 2128 Rayburn House Office Building

Strengths and Weaknesses of the Housing Voucher Program

Margery Austin Turner, The Urban Institute

Thank you for the opportunity to testify today on the strengths and weakness of the federal housing voucher program. My testimony reviews the importance of the Housing Choice Voucher Program and the benefits it provides, and describes challenges facing the program. I argue that the administration's proposal to convert the voucher program into a state block grant does nothing to address these challenges and indeed could make them harder to overcome. Finally, I suggest three strategies that could strengthen the basic voucher program design, substantially improving outcomes for families. My remarks are based on research I and my colleagues at the Urban Institute have conducted on federal housing assistance programs and needs as well as on the work of researchers at the Department of Housing and Urban Development and other public and private organizations.

Summary

The federal Housing Choice Voucher Program plays a critical role in helping to address housing needs for extremely low-income households. Its most important advantage is that vouchers give recipients the freedom to choose the kinds of housing and the locations that best meet their needs. As a consequence, many voucher recipients live in healthy neighborhoods that offer social, educational, and economic opportunities for themselves and their children.

The current housing voucher program certainly does not work perfectly. Vouchers have not been as effective in promoting residential mobility and choice among minority recipients as they have been for whites. But even for African Americans and Hispanics, vouchers perform better than public and assisted housing projects in giving families access to low-poverty and racially mixed neighborhoods.

Not all families who receive vouchers are able to find a house or apartment where they can use them. Shortages of moderately priced rental housing, tight market conditions, racial and ethnic discrimination, landlords who are unwilling to accept voucher payments, and ineffective local administration all contribute to this problem. And the program's "portability" feature, which allows recipients to use their vouchers to move from one jurisdiction to another is a bureaucratic nightmare, not only for families but for the sending and receiving housing authorities.

The single biggest problem with the current housing voucher program is that federal spending for affordable housing is woefully inadequate. Only about one in every three eligible families gets assistance. Thus, even though vouchers work quite well for those lucky enough to receive them, 6.1 million low-income renters still face severe housing hardship – paying more than half their monthly income for housing, or living in seriously run-down or overcrowded housing

Converting vouchers to a block grant does not address any of the program's current limitations—and in fact, could well exacerbate existing problems. Some states might use a block grant's flexibility to implement programmatic models that would potentially undermine the success of the voucher approach, creating new problems and worsening the housing hardships that low-income families already face. Moreover, because funding for the voucher program would no longer be tied to a formula that reflects actual program costs and rents, the gap between housing needs and resources would almost certainly widen over time, undermining states' ability to operate the program effectively.

Three promising strategies for making the basic voucher design work better could be implemented within the existing program structure and could potentially improve outcomes for families substantially: 1) *mobility counseling and assistance* can help voucher recipients understand the locational options available, identify housing opportunities, and negotiate effectively with landlords; 2) *aggressive landlord outreach, service, and incentives,* can substantially expand the housing options available to voucher recipients; and 3) *regional collaboration and/or regional administration* of the voucher program can help address the administrative barriers to portability across jurisdictions, and make the program more transparent to both landlords and participants. Although it is possible that some states might choose to use a voucher block grant to implement one or more of these promising strategies, this choice seems unlikely absent a programmatic mandate or incentive system.

Value of the Housing Choice Voucher Program

The federal housing voucher program supplements rent payments for 1.7 million low-income families and individuals, making it the nation's largest housing assistance program. Recipients choose a house or apartment available in the private market and contribute about 30 percent of their incomes toward rent, while the federal government pays the difference – up to a locally defined "payment standard." Compared to unassisted households at comparable income levels, voucher recipients are far less likely to be paying unaffordable housing cost burdens, and more likely to be living in decent quality housing (HUD 2000). And because the voucher program relies upon the existing housing stock, it is less costly than programs that build new projects for occupancy by the poor (HUD 2000).

The most important advantage of housing vouchers is that they give recipients the freedom to choose the kinds of housing and the locations that best meet their needs. Federal housing construction programs have historically clustered assisted families in low-income, central city neighborhoods, contributing to both concentrated poverty and racial segregation. For example, 37 percent of public housing residents live in neighborhoods where the poverty rate exceeds 40 percent (Newman and Schnare 1997), and most African American residents of public housing live in neighborhoods that are majority black (Goering, Kamely, and Richardson 1994). Even more recent housing production programs, such as the Low Income Housing Tax Credit and the HOME Program have placed a disproportionate share of assisted units in poor and minority neighborhoods. For example, almost half of LIHTC units are located in neighborhoods that are predominantly black (Buron et al. 2000).

In contrast, vouchers have generally allowed assisted families to disperse more widely and to live in lower-poverty, less segregated neighborhoods. In fact, the latest research finds at least some voucher recipients living in eight out of ten neighborhoods in large metropolitan areas. Specifically, Devine et al (2003) analyze the spatial distribution of voucher recipients in the nation's 50 largest metropolitan areas, and conclude that virtually every census tract in these areas contains some housing at rent levels accessible to voucher recipients; voucher recipients are currently living in 83 percent of these census tracts. As a consequence, 58.6 percent of voucher recipients live in neighborhood that are less than 20 percent poor, and only 22.2 percent live in neighborhoods with poverty rates in excess of 30 percent.

Vouchers have not been as effective in promoting residential mobility and choice among minority recipients as they have been for whites. White voucher recipients have gained access to housing in a substantially wider range of metropolitan neighborhoods than have African Americans and Hispanics. African American and Hispanic voucher holders are over-represented in neighborhoods where vouchers are clustered, and under-represented in neighborhoods where they are more widely dispersed (Devine et al 2003). Moreover, 25.2 percent of African American recipients and 27.9 percent of Hispanics live in high-poverty neighborhoods (with poverty rates over 30 percent), compared to only 8 percent of whites (Devine et al 2003). Nevertheless, even among African Americans and Hispanics, voucher recipients are more likely than public and assisted housing residents to live in low-poverty and racially mixed neighborhoods (Turner and Wilson, 1998).

Vouchers Do Not Work Perfectly

This is not to say that the current housing voucher program works perfectly. Some families who receive vouchers are unable to find a house or apartment where they can use them. The most recent study of success rates among voucher recipients (Finkel and Buron 2001) finds that about 69 percent of households who receive a voucher are successful in using it, down from 81 percent in the late 1980s. In some communities, moderately priced rental housing (affordable with a voucher) is in short supply, particularly in good neighborhoods. Historically, many suburban jurisdictions have used zoning and land use regulations to limit the development of rental housing, especially more affordable rental housing, in order to maintain their property tax base and ensure social homogeneity (Advisory Commission on Regulatory Barriers to Affordable Housing 1991; Malpezzi 1994). Few states require jurisdictions to build or accommodate their "fair share" of affordable housing (Burchell et al. 1994). As a consequence, the stock of rental housing tends to be somewhat concentrated in central cities, older suburbs, and less-affluent neighborhoods (Orfield 1997).

Moreover, during the late 1990s and early 2000s, rental markets in many metropolitan areas were very tight, vacancy rates were low, and rents were rising rapidly (HUD 1999). These hot market conditions made it difficult for voucher recipients to find vacant units at rent levels they could afford. HUD increased allowable subsidy levels in many metropolitan areas to address this problem, but some local housing agencies continued to face high turn-back rates, as families failed to find units where they could use their vouchers.

Even when suitable rental units are available, landlords may be unwilling to participate in the voucher program. When demand for rental housing is reasonably strong, landlords do not need the voucher program to lease the units they own. Some may have doubts about whether the low-income households who receive vouchers will be good tenants, and whether program regulations will prevent them from rejecting unqualified applicants or evicting problem tenants. And some landlords are simply skeptical about participating in the program for fear of becoming entangled in red tape and bureaucratic hassles.

In some jurisdictions, the fears of rental property owners about participating in the voucher program have been fueled by the poor reputation of the local housing agency. A housing agency known for delays in conducting inspections and approving leases, unreliability in making subsidy payments, and lack of responsiveness to landlord inquiries or complaints is likely to have serious problems convincing local landlords to participate in the voucher program (Turner, Popkin, and Cunningham 2000). Voucher recipients have the greatest difficulty when tight market conditions combine with ineffective program administration, because landlords can easily find tenants for available units, and see real disadvantages to dealing with the local housing agency. Under these circumstances, there may be only a small pool of "Section 8 landlords," who are familiar with the program and readily accept voucher-holders as tenants, sometimes because their properties are located in less desirable areas and might not otherwise be fully leased up (Turner, Popkin, and Cunningham 2000).

Another challenge for the voucher program is effectively using the "portability" provisions that allow recipients to use their vouchers in any jurisdiction. Transferring vouchers from one locality to another can be a bureaucratic nightmare, not only for families but for the sending and receiving housing authorities. When a family receives its voucher from one housing authority but wants to move to the jurisdiction of a different housing authority, the "sending" PHA has a choice; it can either transfer the family to the new PHA (which must agree to "absorb" the transfer by issuing one of its own vouchers) or it can pay the "receiving" PHA for performing administrative functions such as income certifications, housing inspections, and lease renewals. Many urban PHAs have agreements with neighboring jurisdictions that they will automatically "absorb" vouchers from one other rather than administering complex "billing" arrangements. But this arrangement is also undesirable, requiring the receiving PHA to use up a unit of housing assistance that could have served a family on its own waiting list (Feins et al 1997).

In addition to problems with program administration and regulations, racial discrimination and segregated housing markets exacerbate the challenges that minority recipients face when they try to find housing in which to use their vouchers. Although discrimination against African

American renters has declined over the last decade, minority homeseekers still face high levels of adverse treatment in urban housing markets (Turner, Ross, Galster, and Yinger 2002). And although increasing numbers of minority households have gained access to suburban neighborhoods, researchers continue to find evidence that minorities face significant barriers to entry into white suburban neighborhoods (Stearns and Logan 1986; South and Crowdar 1998). In addition, some suburban communities have resisted the influx of voucher recipients from other jurisdictions, due to prejudice and fear about racial and economic change, and about the crime and social service needs that these new residents are expected to bring (Churchill et al 2001).

Families who receive vouchers to relocate from severely distressed public housing as part of HOPE VI initiatives often have particular difficulty finding and retaining housing in the private market. A substantial proportion of these households lack previous experience with the private market and have complex personal problems — substance abuse, depression, domestic violence, gang affiliation — that make it difficult for them to search effectively for housing and make them less appealing to landlords (Popkin et al. 2002). Landlords may be less willing to rent to public housing families with children, limiting their choices of housing and neighborhoods. Further, long-term public housing residents may not be able to take advantage of any mobility opportunities—their personal situations may make them seem particularly risky to landlords and their own fears of moving to unfamiliar areas may prevent them from even considering these options (Popkin and Cunningham 2000, 2002). Finally, even those former public housing residents who do manage to find housing may encounter problems. Recent research indicates that many are facing hardship due to higher utility costs and the challenges of dealing with individual landlords (Buron et al. 2002). Complex personal situations—such as illegal household members and domestic violence—can place them at risk for losing their assistance altogether (Popkin and Cunningham 2002; Venkatesh 2002).

A Block Grant Could Make the Situation Worse

Converting vouchers to a block grant does not address any of the program's current limitations—and in fact, may exacerbate existing problems. The single biggest limitation of the current housing voucher program is that federal spending for affordable housing is woefully inadequate. Only about one in every three eligible families gets assistance. Thus, even though vouchers work well for those lucky enough to receive them, 6.1 million low-income renters still face severe housing hardship – paying more than half their monthly income for housing, or living in seriously run-down or overcrowded housing (Millenial Housing Commission 2002). Under a block grant, funding for the voucher program would no longer be tied to a formula that reflects actual program costs and rents. As a consequence, the gap between needs and resources would almost certainly widen over time (Sard and Fischer 2003).

Moreover, some states might use a block grant's flexibility to implement programmatic models that would potentially undermine the success of the voucher approach, creating new problems and worsening the housing hardships that low-income families already face. For example, they might reduce subsidy payments in order to serve more families, limiting the range of locational options accessible and undermining the program's effectiveness in making decent housing affordable for the poorest households. Or states might impose time limits in hopes of encouraging self-sufficiency, leaving working poor families to face unaffordable market rent levels. Or they might divert voucher funds to build new housing projects ear-marked for the poor, potentially exacerbating the concentration of assisted housing in poor and minority neighborhoods.

All of these so-called "reforms" are untested. We lack the rigorous evaluation results to assess the effectiveness of alternative program models such as time limits. HUD's Moving to Work demonstration, which provides statutory and regulatory waivers to selected housing authorities as an experiment in deregulation, includes several housing authorities that are testing variations in voucher program rules. These include fixed subsidy levels, minimum tenant contributions, and time limits. However, the impacts of these alternative approaches are not being rigorously evaluated, because Moving to Work was not designed for this purpose (Abravanel et al. 2000). Thus, if states were offered a housing assistance block grant, they would have little evidence on which to base decisions about alternative voucher program designs.

Further, none of these alternative models eliminates the fundamental dilemma of inadequate funding to meet housing needs, and there is good reason to believe that these types of changes would undermine vouchers' proven effectiveness in making decent housing affordable for low-income families. If block grant funding failed to keep pace with the costs of serving needy households, states would face pressures to use Section 8 administrative fees to cover other costs rather than implementing program improvements, or limit voucher recipients to housing in the least costly neighborhoods.

The TANF Experience Is Not Relevant

Supporters of block grants claim welfare reform as a model for converting the housing voucher program to block grants, but none of the factors that contributed to declining case loads under TANF apply to housing. Unlike the proposal to convert housing vouchers to block grants, welfare reform was preceded by years of experimentation and evaluation of alternative models for promoting work and self-sufficiency. And TANF established clear goals and performance standards for the states, providing incentives to get more people working and off the welfare rolls. The housing block grant proposes no clear goals or performance requirements, and offers no proven models for more effective program design.

When TANF was launched, policy makers had good reason to believe that investing up-front in job training and placement services would reduce families' long-term need for cash assistance, increasing employment and cutting the welfare rolls. The same is not true for housing. A majority of voucher recipients already work. Further, affordable housing is out of reach for many working households—in 2002, there was no city in the United States in which a minimum wage worker working full-time could afford the rent for a standard two-bedroom apartment (NLIHC 2002). Regardless of how states tweaked voucher program rules, the need for housing assistance would stay essentially the same.

The Voucher Program Can and Should Be Strengthened

A growing body of experience from programs around the country point to three promising strategies for making the basic voucher design work better. All of these strategies could be implemented within the existing program structure and could potentially improve outcomes for families substantially.

- *Mobility counseling and assistance* can help voucher recipients understand the locational options available, identify housing opportunities, and negotiate effectively with landlords. A growing body of evidence from assisted housing mobility programs across the country indicates that this kind of supplemental assistance can significantly improve locational outcomes for voucher recipients, resulting in greater mobility to low-poverty and racially mixed neighborhoods for families who might otherwise find it difficult to move out of distressed, inner-city neighborhoods (Goering, Tebbins, and Siewert 1995; HUD 1996; Turner and Williams 1998; HUD 1999; Orr et al. forthcoming).

- *Aggressive landlord outreach, service, and incentives,* though sometimes viewed as a component of mobility counseling, actually involve very different activities. Housing agencies can significantly expand the options available to voucher recipients and improve recipients' success in finding suitable housing by continuously recruiting new landlords to participate in the program, listening to landlord concerns about how the program operates, addressing red tape and other disincentives to landlord participation, and – in some cases – offering financial incentives to landlords to accept voucher recipients.

- *Regional collaboration and/or regional administration* of the voucher program can potentially help address the administrative barriers to portability across jurisdictions, and make the program more transparent to both landlords and participants. Almost no urban regions in the U.S. are served by a single, regional housing agency, but in a few, the jurisdiction of the central city PHA has expanded to encompass all or much of the metropolitan region (Feins 1997). In addition, housing authorities in some metropolitan areas have entered in formal agreements that facilitate the movement of voucher recipients among regions. All of these examples illustrate the potential for greater regional coordination as a mechanism for strengthening voucher program performance (Katz and Turner 2001).

Although it is possible that some states might use a voucher block grant to implement one or more of these promising strategies, this seems unlikely absent a programmatic mandate or incentive system. Instead, the quality of local program administration could well deteriorate, particularly given states' current fiscal distress.

Since 1949, federal housing policy has had as its goal "a decent home in a suitable living environment for every American family." We are still a long way from achieving that goal, and the existing housing voucher program needs to be strengthened to move us in the right direction. But replacing the voucher program with a block grant would take us backward. Instead of resolving the fundamental dilemma of inadequate funding for affordable housing, a block grant would make housing hardship a state problem rather than a federal problem, and open the door to untested program changes that could undermine the proven strengths of the voucher approach.

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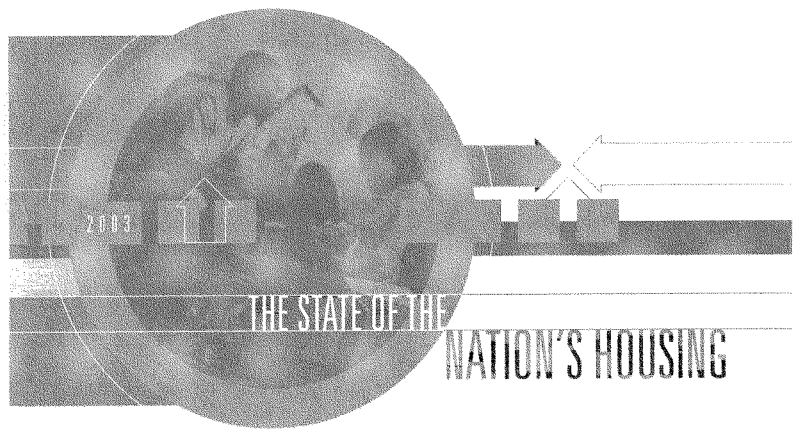

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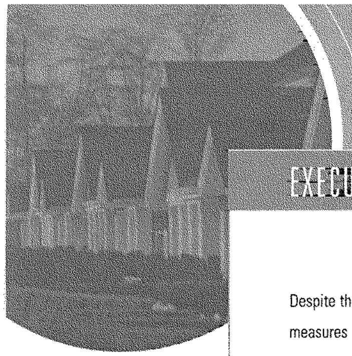
National Housing Endowment

National League of Cities

National Low Income Housing Coalition

National Multi Housing Council

US Conference of Mayors



EXECUTIVE SUMMARY

Despite the 2001 recession and weak ensuing recovery, by most measures 2002 was the strongest year for housing on record. Residential investment, home sales, homeownership rates, aggregate home equity, and total mortgage debt all hit new highs last year. Anemic growth has nevertheless taken its toll, sending mortgage delinquency rates up while pushing rents in some areas down.

When the economy regains momentum and the lingering effects of the recession subside, housing is well-positioned for another solid decade. Median incomes and wealth for all age groups are higher today than ten years ago. These gains, together with continued strong immigration, should lift household growth and housing investment above 1990s levels. Nevertheless, both low- and moderate-income households will continue to have difficulty finding affordable housing.

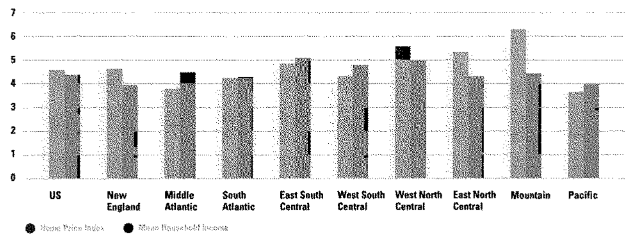
HOUSING'S STRENGTHS

Rising home values and falling interest rates gave the housing sector a sturdy boost in 2002. With rates at 40-year lows, record numbers of homeowners rushed to refinance their mortgages and cash out some of their newfound housing wealth in the process. All told, cash-out refinancings pumped an estimated $97 billion from home equity back into the economy, with another $70 billion going toward the payoff of higher-cost second mortgages.

Meanwhile, the number of new single-family homes built in 2002 reached the highest level since 1978, while multifamily production increased slightly. The only production weak spot was manufactured housing, which suffers from withdrawal of credit and is still struggling to work off excess inventories. Although home building was unusually strong for a period of such paltry economic growth, it has kept pace with long-run housing demand. Barring a slide back into recession, residential construction should remain strong in the years ahead. With little pent-up demand in

Figure 1 Home Values Have Risen in Line with Income Growth

Average annual percent change, 1991-2001



Sources: Freddie Mac Conventional Mortgage Home Price Index, and Census Bureau, Current Population Survey.

evidence, though, the housing sector is unlikely to lead the economy into a more robust recovery.

While surging home prices have sparked fears of a housing market collapse, widespread price declines are unlikely because home prices in most areas have increased in line with income growth (Figure 1). History demonstrates that few localities experience the kind of concentrated job losses that precipitate severe home price deflation. Over the past 15 years, fully 53 of the 100 largest metropolitan areas have not experienced a single year of declining nominal home prices. Most areas, in contrast, have experienced slow deflation in real home prices following prolonged run-ups. In fact, real prices in 58 of the 100 largest metros have fallen ten percent or more at least once since 1987. In about a third of these locations, however, the real home values of owners who bought at least two years before the peak exceeded their purchase prices even at the bottom of the real declines.

NEAR-TERM VULNERABILITIES

Despite this remarkable buoyancy, housing market risks have intensified in recent years. Job losses have forced more mortgage borrowers into foreclosure, increased the number of homeowners spending half or more of their incomes on housing, and softened some rental markets. In addition, expansion of mortgage credit to borrowers with past payment problems has elevated foreclosure risks. Finally, increased mortgage debt levels and growing shares of homebuyers with high loan-to-value ratios have raised concerns about the amount of debt carried.

Though heightened, several of these risks remain relatively well-contained. The increase in mortgage debt, for example, has yet to create serious problems. Thanks to lower interest rates, owners have been able to increase their debt loads without necessarily adding to their monthly payments. In addition, strong home price appreciation has increased home values, providing fully 88 percent of mortgage borrowers with equity of 20 percent or more in 2001. By comparison, only about 4 percent of mortgage borrowers had equity of less than 5 percent in that year.

Furthermore, despite the rise in both delinquencies and foreclosures in 2001 and 2002, problem loans represent a very small fraction of active mortgages. Serious delinquency rates on conventional loans are still under one-half of one percent. Although delinquencies on government-backed loans are higher, new ways of working with borrowers promise to reduce the share of problem loans that end in foreclosure.

As for rental markets, the problems arise largely from the weakness of the economy and should subside once a sustained expansion begins. Although three-month absorption rates on newly constructed units are at 30-year lows, and overall rental vacancy rates have been rising in some areas, many markets remain in balance.

Two risks, however, could lead to more serious problems if the recovery stalls. One is the growing number of loans to borrowers with weak credit histories. Though serving many borrowers who just ten years ago were denied access to credit, default rates on these loans are predictably higher than on standard loans. Because these loans are highly concentrated in low-income, primarily minority communities, a wave of foreclosures could put a glut of homes on the market, lowering prices and threatening the stability of entire neighborhoods.

The second serious risk factor is the dramatic jump in the number of homeowners spending more than half their incomes on housing. About 7.3 million homeowners reported cost burdens of this severity in 2001, up from 5.8 million in 1997. If more job losses occur, some homeowners in the bottom two income quintiles—who make up 84 percent of these vulnerable homeowners—could ultimately face the loss of their homes.

LONGER-TERM OPPORTUNITIES

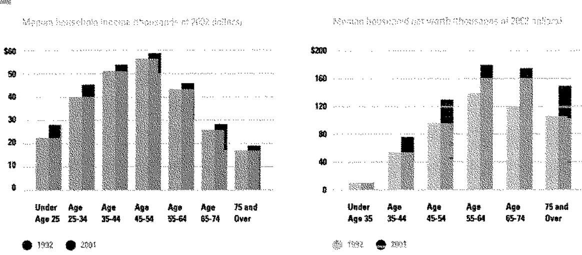
While economic and geopolitical uncertainties cloud the near-term outlook, the underpinnings are in place to support another strong decade for housing. Household growth, the primary driver of housing demand, may well exceed 12 million between 2000 and 2010. Immigrants are expected to contribute more than one-quarter of this net increase and minorities fully two-thirds. The growing influence of minorities on housing markets was already evident in 2001, when they accounted for 32 percent of recent first-time buyers and 42 percent of all renters.

Shifts in the age distribution of the population will favor higher spending on both remodeling of existing homes and purchases of new homes in the coming years. By 2010, older baby boomers will be in their peak wealth years and younger boomers in the peak-earning ages of 45 to 54. Because of their sheer numbers and economic clout, the boomers will still be a major force in homebuying markets even though fewer of them will move over this decade. The younger, more mobile baby-bust generation will also be important to housing markets as they continue to form new households. Meanwhile, the echo boomers will be starting to reach young adulthood and living on their own, boosting demand for apartments and starter homes.

Housing investment during this decade will benefit from the strong productivity gains of the 1990s, which helped to place each age cohort on a higher income and wealth path than the one preceding it (Figure 2). For example, households headed by people age 55 and older have much greater wealth than same-age households ten years ago. And now younger cohorts are on wealth paths nearly as high. Indeed, because the baby boomers will inherit their parents' assets, they may well set a new high for wealth among people over 55 when they begin to reach that age range next decade.

Although household growth is likely to remain concentrated in western and southern states, most of the large metropolitan areas across the country will see strong housing production at their fringes where employment is growing. Just as white households continue to move to these outlying areas, minorities are now moving out of the

Figure 2 Incomes and Wealth Are Building Across All Age Groups



Sources: JCHS tabulations of the 1993 and 2002 March Current Population Surveys and the 1992 and 2001 Surveys of Consumer Finances.

traditional city cores to the inner suburbs (Figure 3). Over the next decade, immigrants are also expected to fan out from the handful of metro areas that are traditional gateways for foreign-born households.

PERSISTENT CHALLENGES

With long-run income growth among lower-income households stagnating and housing costs rising, affordability pressures have intensified. Even households with incomes well above the full-time equivalent of the minimum wage are struggling to find housing that meets their needs, at costs they can afford (Figure 4). Between 1997 and 2001, the number of lower-middle and middle-income households spending more than half their incomes on housing surged by more than 700,000.

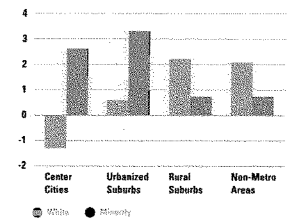
Nevertheless, housing problems fall most heavily on those in the bottom fifth of the income distribution, who can barely afford to pay enough to cover the cost of utilities, property taxes, and maintenance on even modest units in less desirable communities. Yet only 34 percent of the renters in this quintile receive housing assistance. With government deficits ballooning, the prospects for expanding this share are grim.

Meanwhile, the already scarce supply of smaller, less costly housing is shrinking, with especially sharp losses among two- to four-unit apartment buildings. Regulatory and natural constraints on land are driving up land costs in and around many of the nation's metropolitan areas, restricting development of affordable housing. Hope remains that communities will begin to find ways to balance their interests in improving environmental and housing quality with the need for a mix of housing types, suitable for a range of incomes.

Figure 3

As White Households Move Out, Minorities Gain in Cities and Inner Suburbs

Change in millions of households, 1990-2000

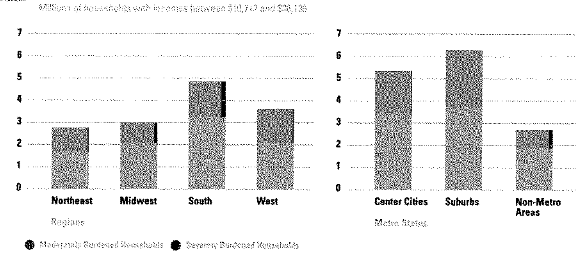


Notes: Whites are non-Hispanic. Minorities include all households not headed by a non-Hispanic white. Values for 1990 are the average of 1989 and 1991, while values for 2000 are the average of 1999 and 2001.
Source: JCHS tabulations of the 1989, 1991, 1999, and 2001 American Housing Surveys, using constant 1983 metro boundaries.

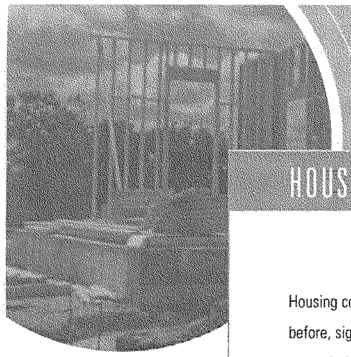
Figure 4

Millions of Working Households Nationwide Struggle to Afford Housing

Millions of households with incomes between $10,712 and $32,136



Notes: Working households are those with incomes between one and three times the full-time minimum wage equivalent in 2001. Moderately burdened households pay between 30% and 50% of income for housing. Severely burdened households pay more than 50% of income for housing.
Source: JCHS tabulations of the 2001 American Housing Survey.



HOUSING AND THE ECONOMY

Housing continued to prop up the economy in 2002. Like the year before, significant interest-rate declines and robust home price appreciation lifted residential investment. Meanwhile, record cash-out refinances pumped $96.5 billion back into the economy. Another $69.5 billion was used to retire higher-cost second mortgages. Strong sales also triggered some spending of home equity realized as capital gains. Even with this extraction of housing wealth, home equity still hit a new high of $7.6 trillion.

HOUSING CONTRIBUTED DIRECTLY TO GROWTH THROUGH STEADILY RISING RESIDENTIAL INVESTMENT, RECORD CASH-OUTS OF HOME EQUITY, AND SUBSTITUTIONS OF HIGHER-COST DEBT WITH LOWER-COST SECOND MORTGAGES.

The steady escalation of home prices has given rise to concerns about a housing market bubble. The good news is that home prices have grown only about as fast as incomes in most areas. In addition, large nominal home price declines are relatively rare and it takes significant and concentrated job losses—well beyond those in evidence in most places today—to precipitate a retreat. Nevertheless, a few markets have seen home price inflation outstrip income growth and a few have registered steeper job losses, making them more vulnerable to home price declines if their economies turn down.

Rising rental property valuations, together with climbing vacancy rates and rent concessions in several markets, have also led to worries that recent rental transactions are overvalued. But because lower interest rates support solid leveraged returns on these acquisitions, they are financially viable. Absent further weakening in rental markets, they should remain so.

REACHING NEW PEAKS

An unexpected decline in mortgage interest rates—prompted by the slumping economy and the movement of capital out of stocks and into bonds—kept the housing boom going in 2002. New and existing home sales both set records. Single-family starts exceeded their 1999 pre-recession levels, while overall residential investment reached a new high (Figure 5). Estimated remodeling expenditures—including maintenance, repairs and replacements—also hit another high in 2002, on top of a strong (inflation-adjusted) 8.6 percent gain between 1998 and 2001.

While edging up in 2002, multifamily housing starts remained within the narrow 330,000-350,000 range where they have held since 1997 (Table A-2). The value of multifamily construction reached $33.3 billion, while expenditures on remodeling of single-family and multifamily rental units totaled an estimated $49 billion. Manufactured housing, in contrast, remained beleaguered by a credit crunch and a glut of repossessed homes. Placements sank for the fourth straight year, down 12.1 percent to 168,800 units.

Housing's strength was widespread, with existing home sales up in 46 states (including the District of Columbia) and new construction also up in 46 (Figure 6). Only one of the states where construction retreated—Michigan—was in more than a second year of decline.

THE CONTRIBUTION OF REFINANCES

In 2001-2, homeowners refinanced a record $2.5 trillion in mortgage debt, more than doubling the 1998-9 high. According to a Federal Reserve Board survey, those who refinanced and took cash out in 2001 and the first half of 2002 withdrew an average of $26,700. In total, homeowners converted an estimated $180.2 billion of their equity into cash during 2001-2 (Figure 7), investing as much as a third of that amount on remodeling.

Although all this refinancing activity has helped to push mortgage debt to record levels, it has been a decided plus for the economy. Indeed, the contribution of cash-out refinances to economic growth last year eclipsed that of residential construction. In addition, households that refinanced without taking out equity injected more than $13 billion into the economy from their increased cash flow. Finally, homeowners rolled $134.5 billion of higher-cost second mortgages into their new first mortgages, also freeing up additional cash for spending.

The drop in interest rates did, however, put a damper on the income gains of many households that own bonds. This reduction partially offset some of the lift the economy received from the new round of refinancing.

THE ANCHORING ROLE OF HOUSING WEALTH

Home equity remained the anchor of household wealth, climbing about $405 billion in 2001-2 at the same time that household stock portfolios lost $1.4 trillion in value. As a result, the share of stock-holding homeowners with more home equity than stock wealth jumped from 60.5 percent in 2001 to an estimated 66 percent in 2002.

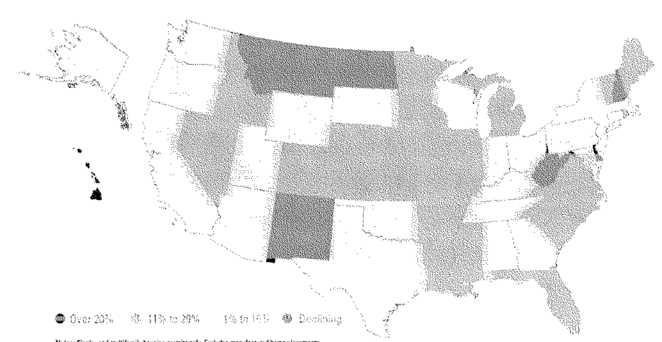
Figure 5 It Was Another Year for the Record Books

	2001	2002	Change
Homeownership Rate	67.8%	67.9%	0.1%
New Home Sales	908,000 units	976,000 units	7.7%
Existing Home Sales	5.3 million	5.6 million	5.7%
Existing Home Price	$153,193	$161,043	5.1%
Home Equity	$7.3 trillion	$7.6 trillion	4.1%
Mortgage Debt	$5.5 trillion	$6.1 trillion	10.9%
Mortgage Refinancing	$1.1 trillion	$1.4 trillion	27.3%
Residential Fixed Investment	$442.4 billion	$462.4 billion	4.5%
Remodeling	$160 billion	$164 billion (e)	2.5%

Note: All dollar figures are in 2002 dollars.
Sources: Table A-5; Table A-2, Federal Reserve Flow of Funds Accounts; Bureau of Economic Analysis; Mortgage Bankers Association of America; National Income and Product Accounts; Census Bureau, C-50.

Figure 6 Home Building Rose in Nearly Every State in 2002

Change in permits 2001-2



Notes: Single- and multifamily housing permits only. Excludes manufactured home placements.
Source: Census Bureau.

In addition to its stabilizing role, home equity is more evenly distributed than stock wealth (Figure 8). While the top one percent of stockholders own 33.5 percent of total stock wealth, the top one percent of home equity holders own just 13 percent of total home equity. Home equity is an especially important source of wealth for those in the bottom fifth of the income distribution. In 2001, the median net wealth of these lowest-income owners was $68,000, while that of lowest-income renters was only $500. Furthermore, for half of these owners, home equity accounted for 80 percent or more of their total net wealth.

Because housing wealth is so broadly distributed, home equity gains influence the spending behavior of far more households than stock gains do. According to Federal Reserve estimates, households spend $0.15 for every $1.00 rise in their housing wealth, but only $0.03-0.05 for every $1.00 rise in stock wealth. This explains why home equity gains have been able to offset the dampening effect of large stock losses on consumer spending.

EVEN AFTER EXTRACTING SUBSTANTIAL AMOUNTS OF WEALTH FROM THEIR PROPERTIES, OWNERS STILL HELD $7.6 TRILLION IN HOME EQUITY AT THE END OF 2002.

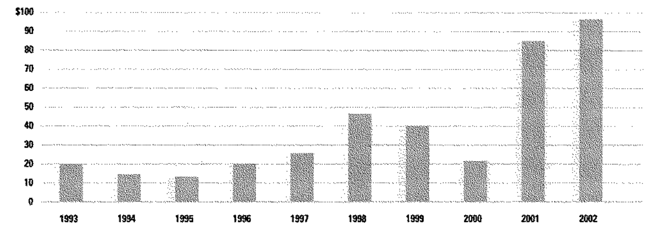
HOUSE PRICE CONCERNS

House price increases have been strong for so long that some analysts have predicted a slowdown, if not a drop, for two years running. Fanning the flames of concern, house price gains have outstripped income gains since 1997 in 48 of the 50 largest metropolitan areas. Nevertheless, inflation-adjusted home prices rose faster in 2001 than at any time since 1978, and nearly as fast again in 2002.

Signs of moderation are, however, emerging. In 2002, real home price inflation slowed in 55 of the 100 largest metro areas, was flat in 3, and declined in 2 (Austin-San Marcos and San Jose, both of which were reeling from

Figure 7 Cash-Out Refinances Have Shattered All Records

Billions of 2002 dollars



Note: Estimates include prime conventional loans only and are net of retirement of outstanding second mortgages.
Source: Freddie Mac.

tech-related job losses). Still, home price inflation did accelerate in the other 40 metro areas (Figure 9).

Although fears about housing market bubbles persist, they seem overblown. In the locations where home prices have moved up the most relative to incomes, such as New York, Boston, Miami, San Francisco, and Seattle, the scarcity of developable land and the cost of regulation are partly responsible. These factors, together with higher incomes, have kept these areas among the highest-cost housing markets in the nation.

More importantly, it takes concentrated job losses—the likes of which have not been seen during this business cycle—to drive down home prices. Prices fall when many people must sell their homes at the same time that demand is soft. With surplus inventory on the market, sellers are forced to accept lower prices.

Even during national or regional recessions, most metropolitan areas do not experience severe job losses or housing price declines. During the wave of house price deflation in the late 1980s and early 1990s, for example, nominal declines occurred in 47 of the 100 largest metropolitan areas. Just 24 of those areas saw a drop of five percent or more. Consequently, house prices in only one in four large metro areas fell enough to wipe out the value of a modest five percent downpayment.

Moreover, when house prices deflate, they do so slowly. Because people live in, as well as invest in, their homes, many owners choose to stay put when prices soften. This reduces the number of homes on the market and helps bring supply and demand back in balance, thereby forestalling faster and sharper price declines.

Slow declines in inflation-adjusted home prices following sharp run-ups, however, are common. In fact, real home prices have fallen at least 10 percent in 58 of the 100 largest metro areas at some point since 1987. These declines occurred over an average of 6 years.

Furthermore, because housing is typically a leveraged investment, even when nominal home prices rise more slowly than general inflation, owners can earn a real return on their capital. In fact, as long as the gap between nominal home price inflation and general inflation is less than the leverage multiple, the owner comes out ahead. For example, an owner who puts $10,000 down on a $100,000 home has a leverage multiple of ten. If nominal home prices rise by one percent, that owner receives a return of ten percent. Unless general price inflation is ten percent or more, the owner still profits.

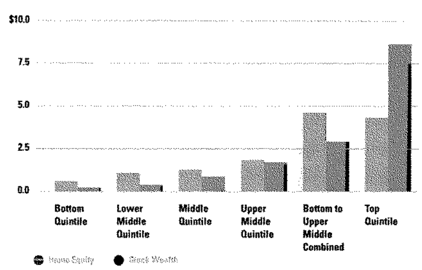
THE OUTLOOK

While housing has held up remarkably well, the near-term outlook is clouded by significant economic and geopolitical uncertainties. So far, the positive effects of rising real disposable incomes and low mortgage interest rates have offset many of the depressing impacts of higher unemployment. Moreover, housing fundamentals remain solid. Production appears to be running in line with long-term

Figure 8

Housing Wealth Is Much More Broadly Distributed Than Stock Wealth

Billions of 2002 dollars

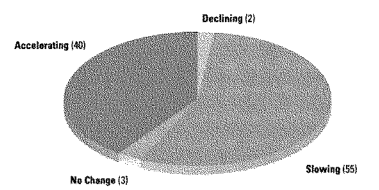


Source: Published tables from the 2001 Survey of Consumer Finances.

Figure 9

Inflation-Adjusted Home Prices Have Moderated in Most Metro Areas

100 largest metro areas



Notes: "Accelerating" defined as faster price growth in 2002 relative to 2001. "Slowing" defined as slower price growth in 2002 relative to 2001. "Declining" defined as a drop in real prices from 2001 to 2002.
Source: Freddie Mac Conventional Mortgage Home Price Index.

IF INTEREST RATES REMAIN LOW THROUGHOUT 2003, HOME SALES, PRICES, AND REFINANCES COULD DEFY EXPECTATIONS YET AGAIN

demand. Inventories of new homes for sale were lean at the end of the first-quarter of 2003 at just 4.1 months, compared with 6.8 months before the last major housing correction. Furthermore, the first-quarter 2003 drop in interest rates triggered yet another wave of refinancing that could bring this year's total within striking distance of last year's record.

If interest rates remain low for the remainder of 2003, home sales, prices, and refinances could defy expectations yet again. On the other hand, even if interest rates increase by a point or more, housing investment should hold up well because borrowers can opt for more affordable, adjustable-rate mortgages. While supporting continued strong home sales, this would also lift home prices and create higher hurdles for first-time buyers. Of course, if the economy slides back into recession, the downward pressure on housing markets would compound the lingering effects of the 2001 downturn. Mortgage delinquencies and foreclosures would likely rise, while some rental markets would soften further.

Over the longer term, housing's direct contribution to the economy should remain strong. Spending within the housing sector (including rents, utilities, furnishings, maintenance, repair, and remodeling) has accounted for about one-fifth of national economic activity for decades, and is likely to account for at least that large a share during the current decade.

DEMOGRAPHIC DEMAND DRIVERS

Despite the sluggish economy, 1.2 million net new households have formed each year on average since 1999. With further inflows of immigrants and the aging of the population, the strong pace of household growth may even pick up over the next decade. This rising demand, together with growth in income and wealth, should spur housing investment to new heights.

HOUSEHOLD GROWTH, THE PRIMARY DRIVER OF HOUSING DEMAND, IS PROJECTED TO TOP 12 MILLION BETWEEN 2000 AND 2010.

Over the next ten years, the aging baby-boomers will continue to support the trade-up market, fuel spending on professional remodeling projects, and shore up demand for more expensive rentals. As the echo boomers move into their 20s, they will lift demand for smaller apartments and starter homes. At the same time, housing providers and the financial system will face the growing challenge of supplying units to low-income and minority households.

Both household growth and new construction will remain concentrated in the South and West and at the far reaches of metropolitan areas. If recent trends are any indication, whites will account for the lion's share of the households moving to the metro fringe and into non-metropolitan areas, while minorities will likely dominate growth in the center cities and in older, urbanized suburbs.

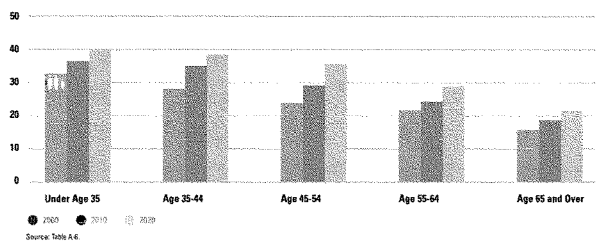
OLDER, MORE DIVERSE HOUSEHOLDS

The nation's households are growing older and more diverse. As a result, the preferences of minorities, middle-aged and older singles, and empty-nesters will increasingly shape housing demand.

Minorities are on track to add 7.5 million households between 2000 and 2010, and another 7.8 million between 2010 and 2020 (Table A-6). The minority share of US households is thus expected to grow steadily from about one-quarter to nearly one-third within 20 years. Household growth among younger minorities will increasingly offset losses among older whites, with each successive wave of past immigration translating into larger and larger shares of minority households (Figure 10).

Figure 10 The Minority Share of Households Will Increase Across All Age Groups

Percent minority



Source: Table A-6.

Making up nearly half the 25.3 million immigrants arriving in the US since 1980, Hispanics—and particularly Mexicans—will lead the growth in minority households. Even if immigration dropped to half its projected pace, increases in the number of minority households would still top 7.2 million this decade and 6.8 million the next.

Shifts in family composition, while less dramatic, also have important implications for housing demand. The number of people living alone is expected to rise by nearly 5 million over the current decade. With divorce rates high and remarriage rates trending down, many of these single-person households will be relatively affluent, middle-aged baby boomers. This is already apparent in the sharp rise in people living alone in suburban and non-metropolitan areas. From 1992 to 2002, the number of single-person households in these locations increased by four million, compared with less than one million in the urban core.

Meanwhile, growth in the number of married couples over age 55 without minor children living at home will be equally strong, up 4.3 million during this decade and 6.1 million during the next. Many of these households will, however, have their adult children living with them. As of 2002, 15 percent of married-couple households in this age group included an adult child, while 11 percent of 25 to 34 year-olds still lived with their parents.

Indeed, the baby boomers do not seem in a rush to downsize their homes as their children reach adulthood. While fully half of the oldest boomers (aged 45 to 54 in 2000) moved during the 1990s, they typically traded up to newer homes with more amenities. Over this decade, the share of older boomers that move is expected to shrink to about 35 percent, but their sheer numbers mean they will still play a powerful role in home-buyer markets. Similarly, while younger boomers (aged 35 to 44 in 2000) will account for a smaller share of movers from 2000 to 2010, they will remain a major source of demand (Figure 11).

ESCALATING INCOME AND WEALTH

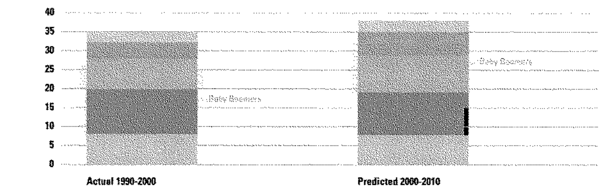
As recently as 1995, it appeared that households under age 45 were earning less than their counterparts ten years earlier. By 1999, though, strong income growth had reversed this trend. Although the relative fortunes of younger households could again change, the baby boomers and older cohorts have managed to top the median incomes of the cohorts ahead of them since at least the mid-1980s. These advances reflect a 25-year trend toward higher returns to education, skills, and experience in the workplace and the growing share of dual-earner households (Figure 12). Gains among women are particularly noteworthy, raising the average incomes of both single-person and two-worker households.

Along with income, household wealth has also built over the past ten years. Despite the stock market dive, aggregate wealth at the end of 2002 was up significantly from 1992. Indeed, household wealth in the US has grown almost uninterrupted since the end of World War II. As measured by the Federal Reserve's national balance sheets, inflation-adjusted household wealth more than doubled from $7.8 trillion in 1950 to $17.4 trillion in 1975, then more than doubled again to $40 trillion in 2002.

Figure 11

Despite Falling Mobility Rates, the Baby Boomers Will Remain A Major Force in Home-Buyer Markets

Millions of homeowners moving at least once during the decade

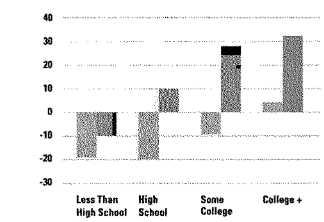


Note: Predicted movers assume 1990's mobility rates.
Sources: 1990 and 2000 Decennial Census, and JCHS projections.

Figure 12

Higher Education Is Key to Income Gains

Median income growth of 18-35 year-olds, 1979-2001 (percent)



Notes: Some college includes three-year associate degrees. College + combines four-year degrees and post-graduate degrees.
Source: JCHS tabulations of the 1977 and 2002 March Current Population Surveys.

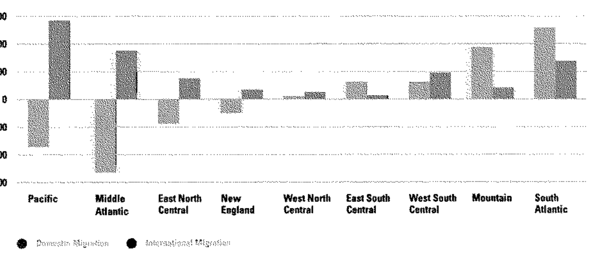
Gains among households over age 55 have been particularly strong. Although the oldest baby boomers have not yet attained the level of wealth their parents did at the same ages, they do stand to inherit record amounts over the next 20 years. In addition, early indications are that the baby boomers will stay in the labor force longer than their predecessors, giving them more time to build wealth on their own. With their record incomes and rising wealth, baby boomers are thus likely to invest even more heavily in housing than earlier generations during their pre-retirement and retirement years.

PERSISTENT INEQUALITIES

Even though income has been on the rise, its distribution has become increasingly unequal. According to the Current Population Survey, the mean inflation-adjusted income of households in the bottom fifth rose by a healthy 11.7 percent during the 1990s. During that same period, the mean income of those in the top fifth was up 25.7 percent. Moreover, the mean income of the lowest-income group fell a full 3 percent during the 2001 recession while the highest-income group eked out yet another small increase.

This growing inequality reflects in part the lower average education level of minorities, who represent a growing segment of the population. Among 25 to 34 year-olds, some 39 percent of Hispanics and 12.3 percent of non-Hispanic blacks lack high-school diplomas, compared with only 6.5 percent of non-Hispanic whites. In addition, 10.6 percent of Hispanics and 19.3 percent of non-Hispanic blacks have college degrees, compared with 36.4 percent of non-Hispanic whites. Making matters worse, minorities also receive less return on their education in the workplace. Among college-educated males in this age group, the median 2001 income for Hispanics was $34,900, non-Hispanic blacks $35,000, and non-Hispanic whites $45,600.

Figure 13 Immigrants to Pacific and Middle Atlantic States Helped Offset Outflows of Native-Born Populations



Source: 1990 and 2000 Decennial Census.

Wealth is even more concentrated than income, and increasingly so. While households in the top fifth of the income distribution held 60 percent of aggregate income in 2001, households in the top fifth of the wealth distribution held fully 83 percent of aggregate wealth. Indeed, the top five percent of wealth holders held 57 percent of the total, while the entire bottom half of wealth holders held a paltry 3 percent.

Households with access to wealth are better able to achieve homeownership. Moreover, they may drive home prices up ahead of income growth, making it more difficult for households with less wealth to buy homes. To compete in the housing market, less wealthy households may therefore have to take out larger home mortgages and devote larger shares of their incomes to pay for comparable housing.

Given that home equity remains the primary source of household wealth, the wealth gap between whites and minorities remains stubbornly large in part because minorities have lower homeownership rates. Reducing this disparity will become more difficult over the next 20 years because white households stand to inherit significantly more wealth than minority households.

IMMIGRATION AND MIGRATION PATTERNS

Following longstanding trends, population growth continues to cluster in the South and parts of the West (Table A-7). During the early 1990s, several western states—especially Arizona, Colorado and Nevada—benefited from strong outmigration from California (Figure 13). Foreign immigration nonetheless kept population growth in California and the rest of the Pacific division going strong.

In the meantime, the southern states drew population from all over the country, but particularly from the New York metropolitan area. The Northeast and the Midwest grew far more slowly, with major cities such as New York and Boston spared from population losses only by an influx of immigrants and strong natural increase among both immigrant and native-born minorities.

The southern and interior western states remain attractive locations, thanks to their relatively low costs of doing business, favorable climates, and healthy labor markets. But the fevered pace of employment and population growth in these areas has strained local resources and fueled anti-development sentiments. While these and other regulatory pressures may eventually erode some of their attractiveness, the South and West will likely continue to experience relatively rapid growth.

On a more local level, residential development in most metropolitan areas now stretches far from the urban core. While persistent expansion at the metropolitan fringe is a long-term phenomenon, the speed with which minorities have joined in this movement is noteworthy. Between 1990 and 2000, the share of Hispanic households living in suburbs rose from 39.6 percent to 42.7 percent, while the share of non-Hispanic black households living in suburbs rose from 26.6 percent to 31.9 percent, and the share of Asian and other minority households rose from 44.9 percent to 49.6 percent.

Growth in the presence of Hispanic households has been particularly dramatic. Over the 1990s, Hispanic households grew by 58 percent and the number of Hispanic households in non-metropolitan areas increased by 71 percent. Furthermore, many census tracts that were less than 20-percent Hispanic in 1990 (primarily in the Southwest, Mountain states, West Coast, and Florida) saw their Hispanic populations grow by 25, 50, and even 100 percent or more (Figure 14).

Meanwhile, many urban core areas experienced their strongest population growth in decades. Among the 31 center cities of the largest metros that lost population in the 1970s and/or 1980s, 16 regained population during the 1990s. Many urban areas have now stabilized and some are beginning to gentrify, sparking concerns over the growing shortage of affordable housing.

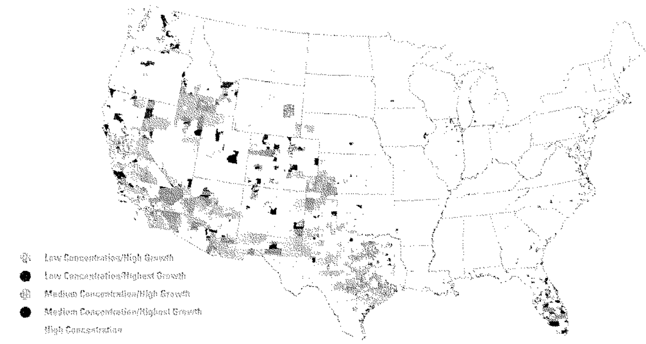
THE OUTLOOK

With the expected uptick in household growth, strong demand for second homes, and better balance in rental markets, housing production during the current decade should exceed the 16.6 million units built and manufactured between 1991 and 2000. Past gains in income and wealth will also buoy investment in new construction and remodeling over the decade.

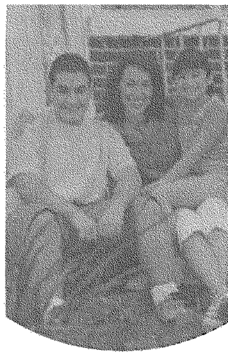
Given that minority households will make up about two-thirds of net new households, their economic progress will become increasingly critical to the robustness of housing markets. But even if their incomes and wealth grow more rapidly than those of whites for the next ten years, wide gaps will almost certainly remain.

Because of the persistent disparities between rich and poor households and between white and minority households, as well as the movement of the echo boomers into young adulthood, housing demand may shift away from single-family detached homes toward more affordable multifamily apartments, town homes, and manufactured homes. Supply-side considerations such as capital availability and zoning may, however, outweigh these demographic forces. In this case, production could tilt even more toward single-family detached homes despite growing pressure for higher-density, lower-cost housing.

Figure 14 Hispanic Households Have Dispersed from Traditional Core Areas



Notes: Excludes census tracts with less than 2.5% Hispanic share in 1990. Low concentration had 2.5% to 4.9%, medium concentration had 5.0% to 19.9%, and high concentration had 20% or greater Hispanic share in 1990. High growth defined as 25-100% and highest growth as greater than 100%.
Source: 1990 and 2000 Decennial Census.



HOMEOWNERSHIP TRENDS

With the addition of 1.1 million owners, the homeownership rate hit another high of 67.9 percent in 2002. Historically low interest rates, expectations of home price appreciation, innovations in mortgage finance, and rising average incomes have all supported the decade-long boom. Ownership rates have risen across the board, and even faster for minorities than whites. Yet minority homeownership rates still lag those of whites of comparable age, income and family type by a significant margin.

BETWEEN 1993 AND 2002, THE NUMBER OF MINORITY HOMEOWNERS SURGED BY 58.8 PERCENT.

For typical home buyers, sharp declines in mortgage interest rates largely offset the impact of surging home prices on affordability in 2001-2. Lower mortgage rates also allowed many homeowners to increase their mortgage debt without adding significantly to their monthly housing costs.

For households at the lower end of the income distribution, though, affordability has clearly eroded. When the economy slowed in 2001, households in the bottom two quintiles saw their incomes fall 2-3 percent, with little or no recovery in 2002. In addition, rising home prices have forced first-time buyers to come up with more cash, take out larger loans, or settle for lower-quality homes than they would have otherwise chosen. Some have been priced out of the market altogether.

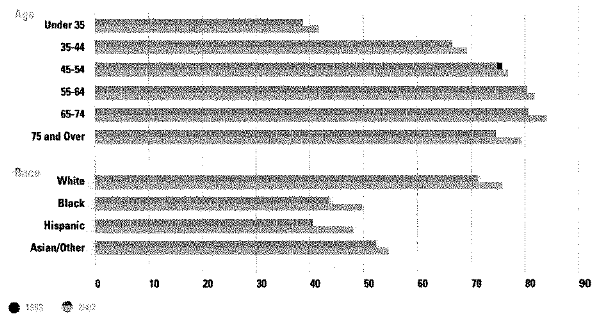
Meanwhile, the weak economy and the expansion of credit to people with past credit problems are starting to take their toll. Though still small, the shares of owners falling seriously behind on their mortgages and in the foreclosure process have increased. Especially worrisome is the concentration of foreclosures in certain low-income minority communities.

MINORITY OWNERSHIP GAINS

Since homeownership rates started to climb in 1993, the number of minority homeowners has increased by 5.2 million—more than 40 percent of the net growth in owners (Figure 15). Indeed, the Fannie Mae

Figure 15 Homeownership Rates Have Increased for All Groups

Percent that are homeowners



Notes: White, black and Asian/other are non-Hispanic. Hispanic householders may be of any race. Asian/other includes Pacific Islanders, Aleuts and Native Americans.
Source: Table A-5.

Foundation estimates that minorities contributed at least half the 1990s growth in homeowners in 10 states and nearly all of the increase in California.

Minority households therefore make up a key home-buyer market (Figure 16). In 2001, minorities accounted for about 32 percent of recent, first-time buyers, up from about 19 percent just eight years before. Foreign-born minorities alone now constitute about one in ten first-time buyers, and account for even greater shares in the handful of metropolitan areas that are home to large foreign-born populations.

Minority home-buying trends differ from those of whites in a number of notable ways. In addition to having lower average incomes and wealth, some minorities tend to be older when they make their first move to homeownership. The median age at first purchase is 30 for native-born non-Hispanic whites. By comparison, the median age for Hispanics is 31, for Asians and others 33, and for non-Hispanic blacks 36. The median ages of foreign-born minority home buyers are higher by about two years.

Interestingly, older minority homeowners are far more likely to stay in the first homes they buy. Indeed, fully 65 percent of non-Hispanic black and 55 percent of Hispanic owners over the age of 65 still live in their first homes, compared with just 32 percent of non-Hispanic whites. While the reasons for this lack of mobility are unclear, it may be a legacy of housing, mortgage and labor market discrimination or it may reflect differences in preferences.

ENDURING OWNERSHIP AND EQUITY GAPS

Strong gains notwithstanding, the gap between white and minority homeownership rates has improved little in 40 years. The disparity still stood at 25.3 percent in 2002.

Differences in income, age and family composition account for about 15 percentage points of the 25 percentage-point lag (Figure 17). Studies attempting to control for other variables, such as wealth and geographic location, also fail to account for much more of the homeownership gap. The weaker average credit scores of minorities may well play a role, however, and the mortgage industry has stepped up efforts to address this factor.

Past and present gaps in homeownership rates have profound impacts on minority household wealth. Today, homeowners age 55 and older hold an estimated $3.3 trillion in home equity. If just three-quarters of these owners pass their properties on to their heirs over the next 20 years, the transfer of wealth would involve 12.3 million homes—fully 10.7 million of which are owned by non-Hispanic whites. Under the simple assumption that equity in these homes does not grow at all in inflation-adjusted terms, the housing wealth passing to white heirs would

Figure 16

Minorities Account for a Growing Share of the Home-Buying Market

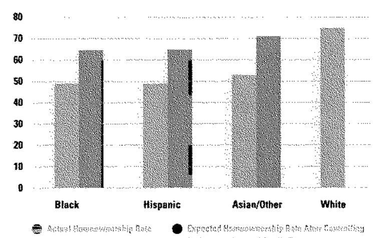
Percent of buyers

Notes: Black and Asian/other are non-Hispanic. Hispanic householders may be of any race. Asian/other includes Pacific Islanders, Aleuts and Native Americans.
Source: JCHS tabulations of the 1991 and 2001 American Housing Surveys.

Figure 17

Income and Demographic Factors Cannot Fully Explain Homeownership Gaps

Percent that are homeowners



Notes: White, black, and Asian/other are non-Hispanic. Hispanic householders may be of any race. Asian/other includes Pacific Islanders, Aleuts and Native Americans.
Source: JCHS tabulations of the 2001 American Housing Survey

EVEN THOUGH MORE AND MORE MINORITIES ARE BUYING HOMES, THEIR HOMEOWNERSHIP RATE STILL LAGS THAT OF WHITES BY ABOUT 25 PERCENTAGE POINTS.

total about $1.4 trillion. In sharp contrast, the 1.6 million homes passing to minority heirs would represent just $135 billion in wealth.

RECORD-LEVEL MORTGAGE DEBT

As a result of strong homeownership gains and house price appreciation, mortgage debt outstanding has grown at a 7.5 percent compound annual rate since 1994, even after adjusting for inflation. Mortgage debt now accounts for 43 percent of residential value, up from 31.6 percent in 1980.

Most of this gain occurred before 1994, after tax reform eliminated the deductibility of many other forms of interest, encouraging homeowners to substitute mortgage debt for unsecured consumer loans. Since then, mortgage debt has in fact risen in line with home values.

While homeowners of all ages are carrying more mortgage debt, the increase among older households is striking. Only 41 percent of those aged 55 to 64 in 2001 had paid off their mortgages, compared with 52 percent of their same-age counterparts in 1989. Even more remarkable is the level of debt they are carrying into late middle age. After adjusting for inflation, the median mortgage debt of 55 to 64 year-olds nearly doubled from $28,158 in 1989 to $55,869 in 2001 (Figure 18). The mortgage debt of slightly younger mortgage borrowers (aged 45 to 54) shot up even more.

In the future, owners may increasingly tap the wealth in their homes to finance consumption during their longer lifetimes. This shift would boost the popularity of reverse mortgages, which pay owners an annuity that is then repaid when their homes pass on to their estates.

To date, the run-up in mortgage debt has increased the exposure of only a small fraction of homeowners. Thanks to the interest-rate cuts of the 1990s, homeowners have been able to hold down their monthly mortgage payments even if they add to their housing debt. For many, substituting mortgage debt for higher-cost consumer loans has also lowered their total debt burden. Moreover, strong home price inflation has quickly added to the home equity of all owners—including those who opted for low-downpayment loans when they bought.

PROBLEM LOAN RISKS

The risks are, however, increasing. Mounting job losses hurt many homeowners in 2002, with both the number and share of problem loans on the rise. It is important to recognize, though, that the share of mortgage borrowers who are seriously behind on their payments or in foreclosure is still relatively low. Delinquency rates on conventional loans have held under 0.5 percent and remain well below past peaks (Figure 19). Although at record levels, foreclosure rates on conventional loans are still under 0.2 percent while those on government-backed FHA loans are about 2.5 percent.

Serious delinquencies are low because declining interest rates have reduced the monthly payments on adjustable-rate mortgages and because lenders have more effective tools for managing problem loans. In 1996, Fannie Mae and Freddie Mac "worked out" only about 30 percent of problem loans. In 2002, the share was nearly 50 percent.

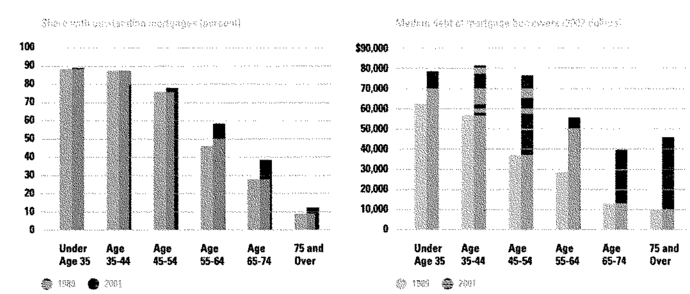
AS OF 2001, SOME 88 PERCENT OF MORTGAGE BORROWERS HAD EQUITY OF AT LEAST 20 PERCENT IN THEIR HOMES.

In addition, the pre- and post-purchase counseling efforts of community-based organizations have helped first-time homebuyers stay current on their mortgages.

Nevertheless, roughly 400,000-450,000 homeowners were in the foreclosure process at the end of 2002. The likely reason foreclosures are at record levels is because of the increased share of loans extended to borrowers with weak credit histories. Such problem loans are less likely to be cured within 90 days and therefore more likely to end in foreclosure.

The popularity of subprime loans thus presents a growing risk factor. These loans, primarily made to borrowers with

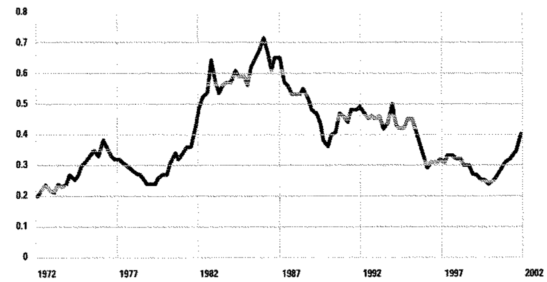
Figure 18: Homeowners Now Hold More Mortgage Debt



Source: JCHS tabulations of the 1989 and 2001 Surveys of Consumer Finances

Figure 19 Serious Mortgage Delinquencies Remain Below Past Peaks

Percent of conventional loans 90 days past due (seasonally adjusted)



Notes: Conventional loans include both prime and subprime mortgages that are not federally insured.
Source: Mortgage Bankers Association of America, National Delinquency Survey.

a history of missed payments, have default rates on the order of ten times higher than those on prime loans given to borrowers with solid credit records. Between 1993 and 2001, the subprime lender share of home purchase loans in metro areas climbed from 1.3 percent to 6.5 percent, while the share of subprime refinance loans jumped from 2.1 percent to 10.1 percent.

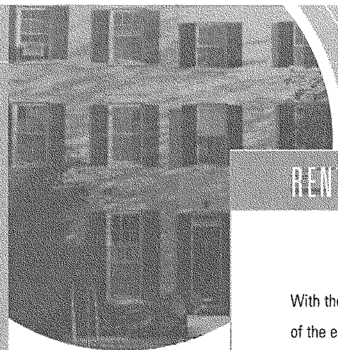
Roughly nine out of ten subprime borrowers pay off their loans, and subprime lending has greatly expanded credit to borrowers and neighborhoods that were once denied. However, the geographic concentration of these high-cost loans is troubling. Between 1993 and 2001, the subprime share of home purchase loans in low-income, predominantly minority communities shot up from 2.4 percent to 13.4 percent and the subprime share of refinances from 6.8 percent to 27.5 percent. Because these loans have relatively high default rates, some of these communities have become vulnerable to a rash of foreclosures that place a glut of homes on the market just when demand is weakening.

Loan risks are rising among lowest-income homeowners. According to the 2001 American Housing Survey, 2.2 million borrowers in the bottom income quintile spent more than half their incomes on housing (including property taxes and utilities), up from 1.7 million in 1997. These lowest-income owners also have lower savings and non-housing wealth to fall back on during hard times. Indeed, estimates from the Survey of Consumer Finances show 69 percent had savings of $1,000 or less in 2001. A job loss or major unexpected expense would thus leave these owners hard-pressed to meet their monthly obligations. Furthermore, some 16 percent of the mortgage borrowers in the bottom income quintile had equity cushions of 5 percent or less in 2001.

THE OUTLOOK

While further homeownership gains are likely during this decade, they are not assured. Additional progress depends in part on preserving the recent increases achieved by low-income households. It also rests on whether the conditions that have fueled homeownership growth since 1993 can be sustained.

Nevertheless, the past ten years have established a momentum that should keep homeownership rates—especially among minorities—headed higher. If conditions remain favorable and the momentum persists, as many as 11.0 million more households will join the homeowner ranks between 2000 and 2010. If age- and household-specific ownership rates remain constant, however, the number of net new homeowners added over the decade would be only about 6.0 million.



RENTAL HOUSING TRENDS

With the strength of homeownership demand and the weakness of the economy, some rental housing markets have softened since 1999. Even though national measures indicate that rents have risen, high vacancy rates in some locations have pushed rents down or prompted landlords to offer concessions to attract tenants—especially for newer and higher-end rental units. Nevertheless, the rental market is not nearly as out of balance as it was the last time a major correction occurred. As a result, rental markets are likely to recover relatively quickly once the economy picks up again.

RENTAL PAYMENTS EXCLUDING UTILITY COSTS TOP $217 BILLION ANNUALLY.

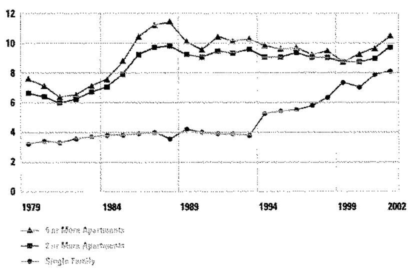
In fact, since the homeownership boom began in 1993, multifamily construction has barely kept up with losses from the stock. Despite the addition of nearly 1.8 million new multifamily rentals over this period, the multifamily rental stock has expanded by only about 100,000 units. While the number of rentals did rise in the fast-growing South and West, the Northeast lost some 264,000 rental units while the Midwest lost 240,000.

The new multifamily apartments being built are substantially more expensive on average than the ones being lost. This trend—fueled in part by local resistance to multifamily construction and escalating development costs—threatens to leave the nation with a dwindling supply of modest rentals. Not surprisingly, then, vacancy rates on units affordable to households in the bottom income quintile are lower than those on more expensive units.

The return of inflation-adjusted rent increases has made it more difficult for many renters to afford their housing. The recent recession made matters worse, dragging median renter incomes down by 1.8 percent in 2000-2. The share of income a typical renter spends on housing thus stood at 26.9 percent in 2002.

Figure 20 Vacancy Rates for Single-Family Rentals Have Surged

Percent

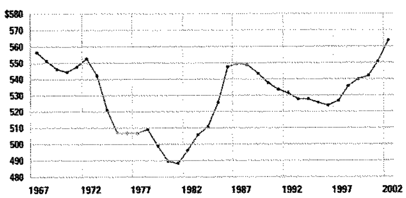


Note: Definition of single-family units changed in 1999 to include attached structures. Data collection procedures also changed in 1993.
Source: Census Bureau, Housing Vacancy Survey.

MOUNTING VACANCIES ARE BEGINNING TO EXERT DOWNWARD PRESSURE ON RENTS IN SOME MARKETS.

Figure 21 Contract Rents Have Reached New Highs

2002 dollars



Source: Table A-1.

SOFTENING RENTAL MARKETS

Vacancy rates for both single- and multifamily rentals have been on the rise since 1993. In fact, the single-family rate hit a new high of 8.1 percent in 2002 (Figure 20). Although the number and share of renters living in single-family homes increased over this period, the growing supply of single-family rentals overshot demand in most regions. The exception was the Midwest, where a fall-off in demand, rather than an increase in supply, was responsible for the rising vacancies. Meanwhile, multifamily vacancy rates began to climb more sharply as the economy slowed, hitting 9.7 percent by 2002. Properties with five or more units were particularly affected as their rates rose to 10.5 percent.

Although information collected by M/PF and REIS show that higher vacancy rates drove down rents on some apartments that came on the market last year, the rent drop may be smaller and the recovery quicker than during the last cycle. In the 1980s, significant overbuilding led to soaring vacancy rates in structures with five or more units. Today, however, the softening economy is more to blame for any excesses in the supply. The correction in rents and in multifamily construction should therefore be more modest this time around.

But developers of newly constructed units may face a bumpy road. Newer properties often target higher-income households relocating to new jobs. Favorable homeownership conditions and employment cutbacks have therefore dampened this high-end demand. Absorption rates for new units hit 30-year lows last year, with only 57 percent of apartments completed in the third quarter of 2002 leased within three months.

In stark contrast, the prices of multifamily rental properties have surged. As interest rates dropped and capital flowed into real estate from the stock market, investors became more willing to accept lower returns on properties. In 2002 alone, lower capitalization rates for multifamily rentals pushed valuations on transacted properties up by about 10 percent. With lower debt costs, investors can pay more for properties while still earning attractive returns. Investors are counting on a cyclical recovery and strong future demand to justify these valuations when they go to sell the properties in several years.

THE WIDENING INCOME-RENT MISMATCH

According to the Consumer Price Index (CPI), contract rents began to rise ahead of inflation in 1997 and eclipsed previous peaks last year (Figure 21). Although slower to reflect market softness than other indexes, the CPI nonetheless provides the best sense of broad, long-term rent trends.

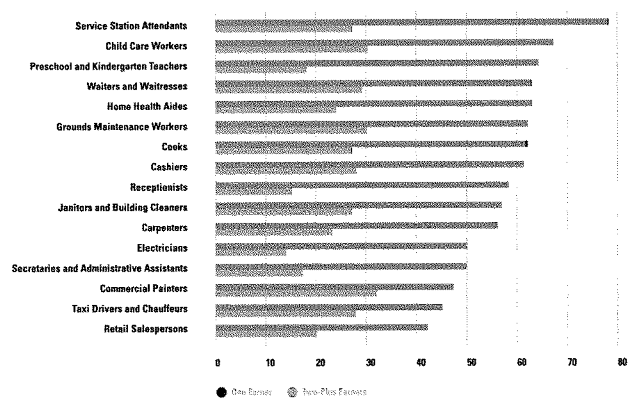
Contract rents have outpaced renter income gains for households across the board. While gross rents (including utilities) are still a few dollars shy of their 1980s peak, it is only because energy costs are much lower than they were 15 years ago. A rise in energy prices would thus drive gross rents back up and increase the already large number of cost-burdened renters (Table A-1).

WITH THE CONTINUAL RISE IN OPERATING COSTS SINCE 1985, RENTS FOR LOWEST-COST UNITS HAVE SHOWN DOUBLE-DIGIT INCREASES.

Many households working in lower-wage jobs are struggling to keep up with escalating rents. Of the 2.1 million

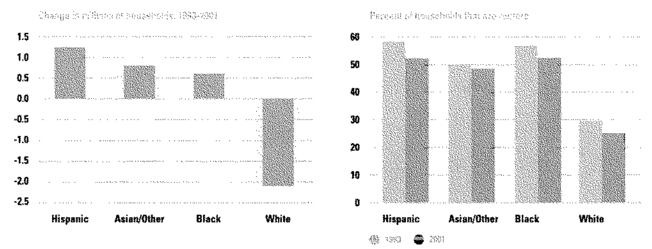
Figure 22 Many Renters in Low-Wage Occupations Are Cost-Burdened Even When Several Household Members Work

Percent with cost burdens



Source: JCHS tabulations of the 2000 Census Supplemental Survey.

Figure 23 The Number of Minority Renter Households Is Growing Despite Falling Rentership Rates



Notes: White, black, and Asian/other are non-Hispanic. Hispanic householders may be of any race. Asian/other includes Pacific Islanders, Aleuts and Native Americans.
Source: JCHS tabulations of the 1993 and 2001 American Housing Surveys.

waiters, waitresses, and cooks who rent, nearly half spend more than 30 percent of their incomes on housing. More than 40 percent of renter households with an earner employed as a childcare worker, home health aide, cashier, library assistant, maid, housekeeper or janitor are similarly cost-burdened (Figure 22). If they are the sole wage earner, renters in several other moderate-paying occupations—including receptionist, carpenter, and electrician—also have a hard time affording their housing.

INCREASING RENTER DIVERSITY

Since the homeownership boom began in 1993, growth in rental demand has been contained to about half a million households. Although the number of renters has changed little during this time, the composition of renter households has undergone dramatic changes.

Even though their rentership rates dropped, strong household growth pushed the number of minority renters up by 2.7 million between 1993 and 2001 (Figure 23). With the number of white renters down by 2.1 million, the minority share of renter households thus increased from 34 percent to 42 percent.

Immigration has also added substantially to the demand for rental units. Foreign-born households now account for nearly one in five renters. Half of these renter households arrived in this country only within the past ten years. Moreover, foreign-born households now account for 73 percent of the growth in Hispanic renters since 1997 and are expected to have an even larger presence in rental markets in the coming years.

MAKING THE RENTAL CHOICE

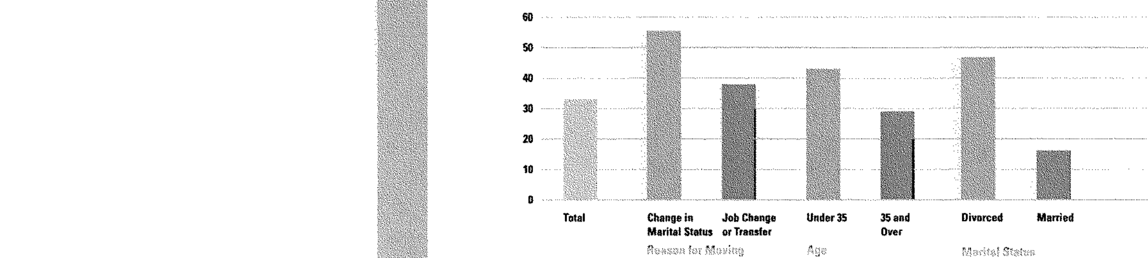
For some households, renting is the only housing option because they lack the income or savings to buy a home. For many others, though, it is the preferred housing choice because it offers greater flexibility than ownership. For example, people who are in the midst of major life transitions, such as a career or family change, often choose to rent their homes rather than buy. Another group that can particularly benefit from renting includes senior homeowners either facing significant changes to their families or incomes, or simply looking for the convenience and community of renting.

Under many circumstances, making the switch from owning to renting also makes sound economic sense. This is the case when households intend to relocate again within a few years, and when falling house prices make renting a haven from asset depreciation. Renting leaves households free to invest the money they would otherwise tie up in their homes, to move without incurring the high transaction costs of home buying and selling, and to avoid spending time and money on home maintenance and repairs.

As a result, it is not uncommon for homeowners to become renters when the circumstances are right. Indeed, one-third of the 7.1 million owners that moved in 2001 rented rather than purchased their next homes. Overall,

Figure 24 **A Large Share of Homeowners Move Back to Renting**

Percent of moving owners that became renters in 2001



Note: Includes all householders that moved in the previous 12 months from a home they owned or co-owned.
Source: JCHS tabulations of the 2001 American Housing Survey.

THE ECHO BABY BOOMERS WILL LIKELY ACCOUNT FOR OVER FOUR IN TEN RENTERS BY 2010.

these former homeowners accounted for one in six households that moved into rental housing (Table A-8). Those who make the switch from owning to renting are usually facing a change in job or marital status, or are simply at the stage in life when their careers and family situations are in flux (Figure 24).

While renting might be only a temporary choice for many of these former owners, the need for housing markets to satisfy this type of short-term demand is ongoing. Although many of these households may decide to buy homes again, other homeowners making the switch to renting will be there to take their places.

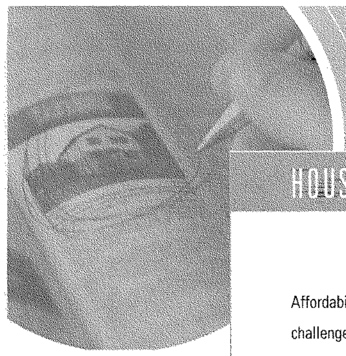
THE OUTLOOK

In the near term, rental housing markets appear headed for a modest correction. Rising vacancy rates should lower rents in many locations, particularly at the high end of the market. Dips in rents could well be fleeting, however, given the relatively small run-up in multifamily vacancy rates as well as the barriers to, and the high cost of, developing new units.

Over the longer term, rental housing demand should grow even if the national homeownership rate continues its steady ascent. The number of renter households is currently expected to increase by about a million in each of the next two decades. But if conditions turn unfavorable for homeowning, the number of renters could easily grow by five to six million. In any case, the renter share should hover near three in ten households for the next 20 years.

Regardless of the overall growth in renters, the composition of renter households will continue to reflect changes in the overall population. Given their strong household growth, minorities will make up an even larger share of renters in the years ahead. Current projections point to an increase in minority share from 42 percent today to over 50 percent in 2020.

The increase in renter diversity, along with the aging of the population, will bolster rental demand at the margins. Growth in young adult households will increase demand for moderate rentals, especially when the echo boomers reach their mid-20s after 2010. Meanwhile growth among those between the ages of 45 and 64 will lift demand for higher-end rentals.



HOUSING CHALLENGES

Affordability remains America's most widespread housing challenge. The shortage of affordable housing directly affects the quality of life for the millions who eke out their housing payments every month, sacrifice the purchase of other essentials, commute long distances to work, and/or suffer overcrowded or unsafe conditions. Worse yet, some must live in shelters or on the street. These pressures not only undermine their physical and mental health, but also their ability to find suitable work, perform well in school, and advance economically.

14.3 MILLION HOUSEHOLDS, OR ONE IN SEVEN, SPEND MORE THAN HALF THEIR INCOMES ON HOUSING.

The affordability problem has worsened over the past 25 years. Even though inflation-adjusted incomes of households in the bottom two quintiles increased over the 1990s, they have been nearly flat since 1975, while home prices and rents have continued to outpace general price inflation. Indeed, housing affordability problems increasingly affect middle-income families, including those who own homes. Any significant increase in interest rates would price more people out of the home-buying market and place further financial burdens on adjustable-rate mortgage holders.

Several factors have conspired to push home prices and rents higher. The stock of lower-cost housing is disappearing on net. Land supplies in many metropolitan areas are extremely limited as a result of past development, natural impediments, or set-asides for parks and other open spaces. At the same time, environmental and other regulations, along with hefty development fees and fierce community opposition, have made higher-density construction difficult as well as expensive.

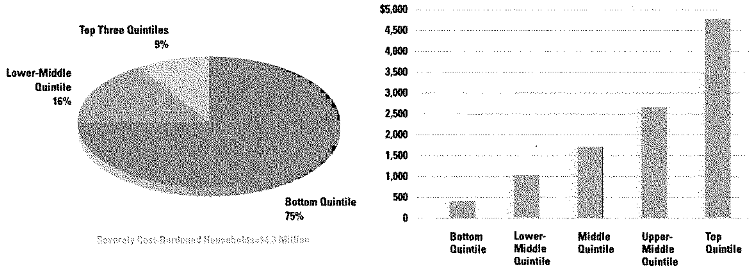
WIDESPREAD HOUSING PROBLEMS

A staggering three in ten US households have housing affordability problems. Fully 14.3 million are severely cost-burdened (spend more than 50 percent of their incomes on housing) and another 17.3 million are moderately cost-burdened (spend 30-50 percent of their incomes on housing)

Figure 25 Most Households With Severe Cost Burdens Are in the Bottom Income Quintile, And Have Little Left Over for Other Living Expenses

Share of severely cost-burdened households

Residual monthly income at 50% cost burden (2002 dollars)



Severely Cost-Burdened Households=14.3 Million

Notes: Severe cost burden defined as spending more than 50% of monthly before-tax income for housing. Residual income is median monthly income for each quintile minus housing costs at 50% cost burden. Income quintiles are defined in Table A-9.
Source: JCHS tabulations of the 2001 American Housing Survey.

(Table A-10). Some 9.3 million households live in overcrowded units or housing classified as physically inadequate. And a disheartening 3.7 million households face more than one of these problems.

Of course, the poor suffer the most. Three-quarters of severely cost-burdened households have incomes in the bottom fifth of the distribution (Table A-9). With a median income of only $10,000, half of these households can allot $250 a month at most for housing under the 30-percent-of-income standard for affordability. Households with incomes that low have only $583 left over to cover all other expenses. Severely burdened households, spending 50 percent of their income on housing, have just $417 left over (Figure 25).

Women, the young, and the old are also over-represented among those with housing problems. Single-parent households are particularly at risk. Children are present in 37 percent of all households but in 93 percent of overcrowded households and in 56 percent of households with multiple housing problems. Almost one-quarter of households with children live in older housing units with high risks of lead hazards, while 41 percent live in units with potential risk of lead hazards.

But housing problems are by no means confined to poor and minority households. Fully 64 percent of households with problems are white, and 55 percent own their homes. In addition, 76 percent of households with at least one housing problem have incomes well above the poverty level. Nearly half report work as their only source of income. Although the incidence is highest in the nation's cities, housing problems afflict urban and rural households alike.

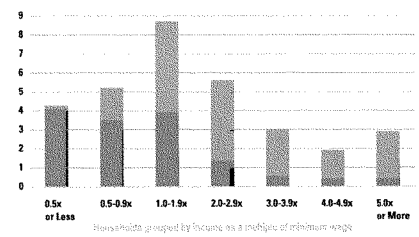
HOMEOWNER AND WORKING FAMILY PRESSURES

Working is less and less of an assurance that people will find homes they can afford, in the places they want to live, without stretching their incomes perilously thin. Despite having incomes between $10,712 and $36,136, some 5.3 million households with incomes one to three times the full-time minimum wage equivalent now pay more than half their incomes for housing (Figure 26). Indeed, those with incomes in this range account for 37 percent of all severely cost-burdened households.

What is more, nearly all the increase in households with affordability problems since 1997 has been among homeowners (Figure 27). Between 1997 and 2001, the incidence of severe cost burdens among owners climbed from 8.8 percent to 10.1 percent, affecting 7.3 million households. Of these, 2.7 million did not even have a mortgage. This is the first time on record that homeowners have outnumbered renters with severe affordability problems. Without low-interest rates and downpayment assistance programs administered through housing finance and other agencies, the number would be even higher.

Figure 26 High Housing Costs Stretch the Incomes of Working Americans

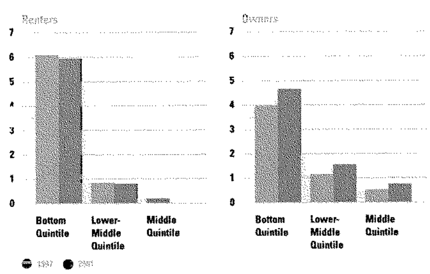
Millions of households



Note: Categories are groups of households by the ratio of household income to the full-time minimum wage equivalent ($10,712 in 2003).
Source: JCHS tabulations of the 2001 American Housing Survey.

Figure 27 Affordability Problems Persist Among Renters and Are Growing Among Owners

Millions of severely cost-burdened households



Note: See Table A-9 for definitions of income quintiles.
Source: JCHS tabulations of the 1997 and 2001 American Housing Surveys

HOUSEHOLDS WITH ONE FULL-TIME MINIMUM WAGE EARNER CANNOT AFFORD TO RENT A MODEST ONE-BEDROOM APARTMENT ANYWHERE IN THE COUNTRY.

ASSISTING THE NEEDIEST

The simple fact is that the cost of supplying even the most modest housing far exceeds the amount many lower-income households can pay. Based on HUD's fair market rent measure, households with one full-time minimum wage earner cannot afford to rent even a one-bedroom apartment anywhere in the country. The National Low Income Housing Coalition estimates the current "housing wage"—the amount it takes to afford an apartment at 30 percent of income—is two to three times the minimum wage in 92 metropolitan areas and 63 non-metropolitan counties, and more than triple the minimum wage in 24 metro areas and 12 non-metro counties (Figure 28).

In total, 6.3 million renter households report receiving a subsidy. But many of these households receive subsidies that do not cap the recipient's contribution to housing payments at 30 percent of income. As a result, 24 percent of these subsidized renters report severe cost burdens and another 23 percent report moderate cost burdens.

Similarly, some recipients of housing assistance live in poor-quality units. Approximately 705,000 subsidized tenants are now housed in units with at least moderate structural deficiencies. These inadequate conditions are found most commonly in older federally assisted properties that have received insufficient funding for maintenance and operations.

Making matters worse, the shortage of affordable market-rate rentals is dire. In 2001, the 9.9 million renters in the bottom income quintile outnumbered the supply of these lowest-cost units by fully 2 million (Figure 29). Reducing the pool even further, higher-income households occupied 2.7 million of the 7.9 million lowest-cost units.

Furthermore, market-rate low-cost units are at risk of being lost from the housing stock due simply to economic realities. Because landlords can only charge lowest-income renters so much rent, their revenues cannot cover basic operating and upkeep costs. Under-maintenance then begins the downward spiral that leads to a unit's deterioration and eventual removal from the housing stock. While some public funds are available to rehabilitate this stock, they can only preserve a small fraction of these low-cost units. Once they are lost, these private-market units will be difficult, if not impossible, for the housing sector to replace.

The inventory of directly subsidized rental properties is also under pressure. Working in partnership with local and state agencies, the federal government has embarked on a program to replace severely distressed public housing. While the nation is gaining far better housing and restoring communities, replacement is not one for one.

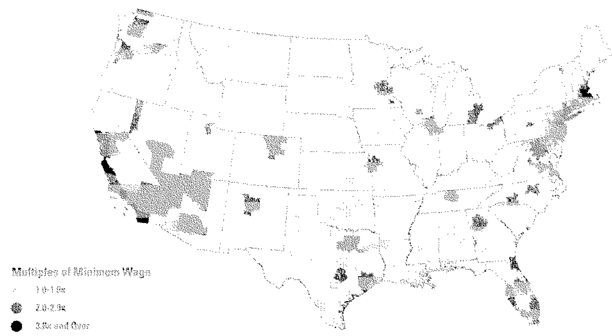
In addition, about 150,000 units of privately owned but publicly assisted housing have been lost since 1997 as owners opt out of their contracts. At a time of rising demand, the remaining federal production programs—the Low Income Housing Tax Credit, HOME, and CDBG—are vital to forestall net reductions from the low-cost housing stock.

LAND USE AND DEVELOPMENT RESTRICTIONS

In their efforts to manage residential growth and preserve open space, state and local jurisdictions have passed numerous land use regulations that have made it increasingly difficult to add market-rate units to the affordable supply. Although aimed at achieving several worthy public interests—including environmental quality, housing quality, and safety and health—these restrictions also serve to make all housing more costly.

Large-lot zoning for single-family homes, for example, contributes to sprawl, ties up more land for fewer homes, and creates incentives to build for households that can afford the high land costs. Restrictions on multifamily and manufactured housing development also limit the supply of low-cost units. And fees on new developments intended to cover infrastructure and other incremental costs to communities drive housing costs up even further.

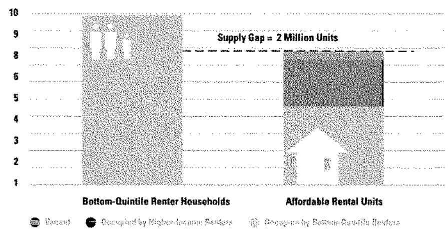
Figure 28: Housing in Most Metro Areas Costs Several Times the Minimum Wage



Notes: Categories are multiples of minimum wage needed to afford a modest one-bedroom apartment at HUD's 2003 Fair Market Rent. Full-time minimum wage in 2003 is $10,712.

Figure 29 Demand For Units Most Affordable to Bottom Quintile Renters Far Outstrips Supply

Millions



Notes: See Table A-9 for income quintile definitions. Units affordable to bottom quintile renters are those renting at or below 30% of the maximum income for the bottom quintile ($17,500 in 2001).
Source: JCHS tabulations of the 2001 American Housing Survey.

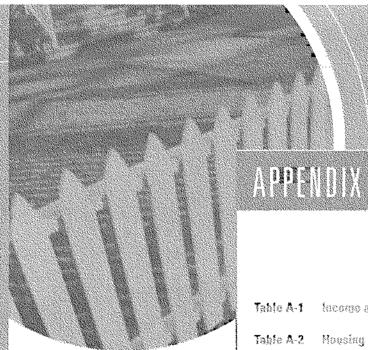
THE OUTLOOK

Progress in tackling the nation's housing challenges has stalled. The nation's neediest households now stand to lose rather than gain resources, the stock of affordable units is under pressure, and the ongoing rise in home prices points to even greater affordability problems ahead—particularly if interest rates increase.

Fiscal pressures at all levels of government threaten to reduce the already insufficient resources devoted to housing assistance. Even stable funding for federal housing assistance—which accounts for just 8 percent of non-defense discretionary spending—is in jeopardy. And with state officials forced to trim spending by $25.7 billion in fiscal 2003 alone, states are unlikely to expand, and some may shrink, their housing programs.

Meeting the housing needs of lowest-income Americans poses a dual challenge. Because it is so difficult to build affordable units, a priority must be to preserve—and improve where necessary—the existing supply of lowest-cost housing. The other is to recognize that, absent stronger income gains among the nation's poor, subsidies are the only way to provide decent housing for lowest-income households because developers simply cannot build and operate units at rents they can afford. Unfortunately, in the face of growing federal deficits and fierce state and local budget-cutting, the prospects for providing this assistance to the nation's neediest are grim.

Furthermore, lack of subsidies and community cooperation hinders the ability to replace low-cost units that are lost from the housing stock. Only a few communities to date are conditioning their approvals for higher-density developments on affordable housing set-asides. The hope remains that local planning efforts will succeed in providing housing for households across the income spectrum, while at the same time ensuring high housing quality and improving the quality of life for the entire community. To realize that hope, however, public attitudes will need to change from resistance to acceptance of a mix of housing types, prices, and rents.



APPENDIX TABLES

Web Tables

The following tables can be downloaded in Microsoft Excel format from the Joint Center's website at www.jchs.harvard.edu.

Table A-1

Income and Housing Costs, 1975-2002

In 2002 dollars

	Monthly Income		Owner Costs				Renter Costs		Cost as Percent of Income: Owners		Cost as Percent of Income: Renters	
Year	Owner	Renter	Home Price	Mortgage Rate (%)	Before-Tax Mortgage Payment	After-Tax Mortgage Payment	Contract Rent	Gross Rent	Before-Tax Mortgage Payment	After-Tax Mortgage Payment	Contract Rent	Gross Rent
1975	4,069	2,411	117,595	8.9	845	710	507	577	20.8	17.5	21.0	23.9
1976	4,045	2,340	119,746	8.9	857	719	507	581	21.2	17.8	21.7	24.8
1977	4,058	2,356	124,648	8.8	888	775	507	585	21.9	19.1	21.5	24.8
1978	4,101	2,386	132,482	9.4	991	842	509	589	24.2	20.5	21.3	24.7
1979	4,107	2,335	133,718	10.6	1,109	932	499	580	27.0	22.7	21.4	24.8
1980	3,857	2,214	127,843	12.5	1,224	1,005	490	574	31.7	26.1	22.1	25.9
1981	3,746	2,185	122,122	14.4	1,336	1,080	488	576	35.7	28.8	22.3	26.4
1982	3,751	2,206	118,418	14.7	1,325	1,088	496	591	35.3	29.0	22.5	26.8
1983	3,836	2,201	118,556	12.3	1,119	920	506	604	29.2	24.0	23.0	27.5
1984	3,937	2,268	118,155	12.0	1,093	905	511	610	27.8	23.0	22.5	26.9
1985	4,041	2,301	119,808	11.2	1,041	863	526	623	25.8	21.4	22.8	27.1
1986	4,184	2,329	125,806	9.8	976	813	548	643	23.3	19.4	23.5	27.6
1987	4,210	2,306	129,840	9.0	936	811	550	640	22.2	19.3	23.9	27.8
1988	4,233	2,375	132,392	9.0	957	850	549	636	22.6	20.1	23.1	26.8
1989	4,290	2,455	134,157	9.8	1,043	920	544	629	24.3	21.4	22.2	25.6
1990	4,163	2,377	131,450	9.7	1,016	897	538	620	24.4	21.6	22.6	26.1
1991	4,101	2,278	128,519	9.1	937	832	534	616	22.8	20.3	23.5	27.0
1992	4,070	2,215	128,116	7.8	832	748	532	613	20.5	18.4	24.0	27.7
1993	4,036	2,192	127,020	6.9	755	685	528	609	18.7	17.0	24.1	27.8
1994	4,077	2,163	127,076	7.3	785	714	528	607	19.3	17.5	24.4	28.1
1995	4,115	2,220	127,560	7.7	818	741	526	603	19.9	18.0	23.7	27.2
1996	4,184	2,239	128,811	7.6	817	740	524	602	19.5	17.7	23.4	26.9
1997	4,280	2,290	130,834	7.5	825	747	527	605	19.3	17.5	23.0	26.4
1998	4,407	2,336	135,592	7.0	809	736	536	611	18.4	16.7	23.0	26.1
1999	4,505	2,419	140,016	7.1	850	770	541	614	18.9	17.1	22.4	25.4
2000	4,459	2,434	145,670	7.9	949	850	542	617	21.3	19.1	22.3	25.3
2001	4,368	2,414	153,193	6.9	912	824	551	630	20.9	18.9	22.8	26.1
2002	4,383	2,390	161,043	6.4	910	827	564	638	20.8	18.9	23.6	26.7

Notes and Sources: All dollar amounts are in 2002 constant dollars using the Bureau of Labor Statistics' Consumer Price Index (CPI-UX) for All Items. Owner and renter median incomes through 2001 from Current Population Survey P60 published reports. Renters exclude those paying no cash rent. 2002 incomes estimated from the change in HUD median family income applied to 2001 CPS income for all households and adjusted by three-year average ratio of owner and renter incomes to all household incomes. Home price is the 1990 median sales price of existing single-family homes determined by the National Association of Realtors, indexed by the Freddie Mac Conventional Mortgage Home Price Index. Mortgage rates are from the Federal Housing Finance Board Monthly Interest Rate Survey. Mortgage payments assume a 30-year term with 10% down. After-tax mortgage payment equals mortgage payment less tax savings of homeownership. Tax savings are based on the excess of housing deductions (mortgage interest and real-estate taxes) plus non-housing deductions over the standard deduction. Non-housing deductions are set at 5% of income through 1986, 4.25% in 1987, and 3.5% in 1988 on. Contract rent equals median 1991 contract rent from the American Housing Survey, indexed by the CPI residential rent index with adjustments for depreciation in the stock before 1987. Gross rent is equal to contract rent plus fuel and utilities.

Table A-2

Housing Market Indicators, 1975-2002

	Permits (1) (Thousands)		Starts (2) (Thousands)			Size (3) (Median sq. ft.)		Sales Price of Single-Family Homes (2002 dollars)		Residential Upkeep and Improvement (6) (Millions of 2002 dollars)	
Year	Single-family	Multi-family	Single-family	Multi-family	Manu-factured	Single-family	Multi-family	New (4)	Existing (5)	Owner-occupied	Rental
1975	676	263	892	268	229	1,535	942	154,439	117,595	63,718	27,289
1976	894	402	1,162	375	250	1,590	894	158,638	119,746	72,971	26,661
1977	1,126	564	1,451	536	258	1,610	881	168,094	124,648	77,801	23,712
1978	1,183	618	1,433	587	280	1,655	863	180,590	132,482	83,458	29,762
1979	982	570	1,194	551	280	1,645	893	189,575	133,718	87,352	29,319
1980	710	481	852	440	234	1,595	915	187,833	127,843	88,812	26,716
1981	564	421	705	379	229	1,550	930	185,177	122,122	76,653	28,183
1982	546	454	663	400	234	1,520	925	178,560	118,418	71,224	25,423
1983	902	703	1,068	636	278	1,565	893	175,035	118,556	73,907	26,980
1984	922	757	1,084	665	288	1,605	871	174,564	118,155	80,993	41,244
1985	957	777	1,072	670	283	1,605	882	170,671	119,808	85,829	51,482
1986	1,078	692	1,179	626	256	1,660	876	174,185	125,806	96,465	58,369
1987	1,024	510	1,146	474	239	1,755	920	177,043	129,840	93,040	61,226
1988	994	462	1,081	407	224	1,810	940	176,342	132,392	103,186	59,323
1989	932	407	1,003	373	203	1,850	940	175,009	134,157	95,746	61,019
1990	794	317	895	298	195	1,905	955	169,164	131,450	92,596	66,289
1991	754	195	840	174	174	1,890	980	164,499	128,519	88,148	54,097
1992	911	184	1,030	170	212	1,920	985	161,795	128,116	97,047	51,141
1993	987	212	1,126	162	243	1,945	1,005	163,848	127,020	99,350	52,413
1994	1,068	303	1,198	256	291	1,940	1,015	167,416	127,076	110,046	48,520
1995	997	335	1,076	278	319	1,920	1,040	167,419	127,560	99,052	48,469
1996	1,070	356	1,161	316	338	1,950	1,030	165,656	128,811	101,510	49,108
1997	1,062	379	1,134	340	336	1,975	1,050	166,636	130,834	105,319	44,403
1998	1,188	425	1,271	346	374	2,000	1,020	168,227	135,592	109,706	37,849
1999	1,247	417	1,302	339	338	2,028	1,041	172,704	140,016	107,207	47,101
2000	1,198	394	1,231	338	281	2,057	1,039	174,182	145,670	109,261	50,555
2001	1,236	401	1,273	329	192	2,103	1,104	175,380	153,193	111,375	48,884
2002	1,321	407	1,359	346	169	2,113	1,069	180,307	161,043	115,124(e)	49,431(e)

Note: All dollar amounts are in 2002 constant dollars using the Bureau of Labor Statistics' Consumer Price Index (CPI-UX) for All items.

Sources:
1. Census Bureau, Construction Statistics, New Residential Construction, New Privately Owned Housing Units Authorized by Building Permits, http://www.census.gov/pub/const/bpann.pdf (as of April 2003)
2. Census Bureau, Construction Statistics, New Residential Construction, New Privately Owned Housing Units Started, http://www.census.gov/const/startsan.pdf (as of April 2003); and Manufactured Housing Statistics, Placements of New Manufactured Homes, http://www.census.gov/pub/const/mhs/mhstabplcmnt.pdf (as of April 2003). Manufactured housing starts defined as placements of new manufactured homes.
3. Census Bureau, Construction Statistics, New Residential Construction, New Privately Owned Housing Units Started in the United States, by Intent and Design. http://www.census.gov/const/startsusintenta.pdf (as of April 2003).
4. New home price is the 1990 national median home price indexed by the Census Bureau, Construction Statistics, New Residential Sales, Price Indexes of New One-Family Houses Sold, http://www.census.gov/const/price_indexes.pdf (as of April 2003).
5. Existing home price is the 1990 median sales price of existing single-family homes determined by the National Association of Realtors, indexed by the Freddie Mac Conventional Mortgage Home Price Index.
6. Census Bureau, Construction Statistics, Residential Improvements, Expenditures by Region and Property Type, http://www.census.gov/pub/const/C50/tables2.pdf (as of April 2003). Figures for 2002 are JCHS estimates.
7. Census Bureau, Housing Vacancy Survey. Definition of one-unit structures changed in 1999 to explicitly include single-family attached structures. Caution should be used in comparing vacancy rates by structure type before and after 1999.
8. Census Bureau, Construction Statistics, Value of Construction Put in Place, Annual Value of Construction Put in Place, http://www.census.gov/pub/const/C30/c30tab1.rpt (as of April 2003).
9. Census Bureau, Construction Statistics, New Residential Sales, New One-Family Houses Sold, http://www.census.gov/const/soldann.pdf (as of April 2003).
10. National Association of Realtors, Existing Home Sales.

Vacancy Rates (7) (Percent)					Value Put in Place (8) (Billions of 2002 dollars)			Home Sales (Thousands)	
All Units		For Rent (by Structure Type)							
For Sale	For Rent	One Unit	Two or More Units	Five or More Units	Single-family	Multi-family	Additions & Alterations	New (9)	Existing (10)
1.2	6.0	n/a	n/a	n/a	99.1	22.3	51.0	549	2,476
1.2	5.6	n/a	n/a	n/a	138.7	21.8	55.3	646	3,064
1.2	5.2	n/a	n/a	n/a	184.7	29.7	58.7	819	3,650
1.0	5.0	n/a	n/a	n/a	200.8	35.4	66.9	817	3,986
1.2	5.4	3.2	6.6	7.6	179.1	42.2	67.3	709	3,827
1.4	5.4	3.4	6.4	7.1	115.5	36.5	67.1	545	2,973
1.4	5.0	3.3	6.0	6.4	102.8	34.6	59.0	436	2,419
1.5	5.3	3.6	6.2	6.5	77.3	29.0	51.6	412	1,990
1.5	5.7	3.7	6.7	7.1	131.0	40.5	55.8	623	2,719
1.7	5.9	3.8	7.0	7.5	149.6	48.9	69.9	639	2,868
1.7	6.5	3.8	7.9	8.8	146.0	47.7	74.6	688	3,214
1.6	7.3	3.9	9.2	10.4	170.9	50.9	91.1	750	3,565
1.7	7.7	4.0	9.7	11.2	185.6	40.3	90.2	671	3,526
1.6	7.7	3.6	9.8	11.4	182.6	33.9	94.4	676	3,594
1.8	7.4	4.2	9.2	10.1	175.4	32.4	88.5	650	3,346
1.7	7.2	4.0	9.0	9.5	155.4	26.5	81.2	534	3,211
1.7	7.4	3.9	9.4	10.4	131.3	20.0	68.3	509	3,220
1.5	7.4	3.9	9.3	10.1	156.4	16.8	82.5	610	3,520
1.4	7.3	3.8	9.5	10.3	174.5	13.4	92.3	666	3,802
1.5	7.4	5.2	9.0	9.8	197.0	17.1	99.7	670	3,967
1.6	7.6	5.4	9.0	9.5	181.2	21.1	89.7	667	3,812
1.6	7.9	5.5	9.3	9.6	195.8	23.3	103.2	757	4,196
1.6	7.8	5.8	9.0	9.1	196.4	25.6	101.9	804	4,382
1.7	7.9	6.3	9.0	9.4	220.1	27.1	100.0	886	4,970
1.7	8.1	7.3	8.7	8.7	241.7	29.6	107.2	880	5,205
1.6	8.0	7.0	8.7	9.2	247.4	29.5	114.3	877	5,152
1.8	8.4	7.9	8.9	9.6	253.0	31.2	110.7	908	5,296
1.7	9.0	8.1	9.7	10.5	263.6	33.3	118.7	976	5,563

Table A-3

Terms on Conventional Single-Family Mortgages, 1980-2002

Annual Averages, All Homes

Year	Effective Interest Rate (%)	Term to Maturity (Years)	Mortgage Loan Amount (Thousands of 2002 dollars)	Purchase Price (Thousands of 2002 dollars)	Loan-to-Price Ratio (%)	Percent of Loans with: Loan-to-Price Ratio Above 90%	Percent of Loans with: Adjustable Rates
1980	12.8	27.2	113.0	160.4	72.9	10	na
1981	14.9	26.4	107.2	152.3	73.1	15	na
1982	15.3	25.6	103.5	147.5	72.9	21	41
1983	12.7	26.0	108.2	150.1	74.5	21	40
1984	12.5	26.8	111.7	149.9	77.0	27	62
1985	11.6	25.9	117.4	160.7	75.8	21	51
1986	10.2	25.6	130.2	181.5	74.1	11	30
1987	9.3	26.8	141.1	192.9	75.2	8	43
1988	9.3	27.7	148.1	200.1	76.0	8	58
1989	10.1	27.7	151.6	207.2	74.8	7	38
1990	10.1	27.0	143.1	196.3	74.7	8	28
1991	9.3	26.5	140.4	193.8	74.4	9	23
1992	8.1	25.4	139.4	187.7	76.6	14	20
1993	7.1	25.5	133.2	178.2	77.2	17	20
1994	7.5	27.1	133.4	172.4	79.9	25	39
1995	7.9	27.4	130.3	168.6	79.9	27	32
1996	7.7	26.9	136.1	177.8	79.0	25	27
1997	7.7	27.5	141.9	184.4	79.4	25	22
1998	7.1	27.8	145.5	191.4	78.9	25	12
1999	7.3	28.2	150.4	198.9	78.5	23	21
2000	8.0	28.7	154.9	207.8	77.8	22	24
2001	7.0	27.6	158.2	218.9	76.2	21	12
2002	6.5	27.3	163.4	231.2	75.1	21	17

Notes: The effective interest rate includes the amortization of initial fees and charges. "na" indicates data not available.
Source: Federal Housing Finance Board, Monthly Interest Rate Survey.

Table A-4

Median Net Wealth of Owner and Renter Households, 1989-2001

2001 dollars

	1989		1992		1995		1998		2001	
	Owners	Renters	Owners	Renters	Owners	Renters	Owners	Renters	Owners	Renters
Total	139,153	2,772	122,379	3,960	119,972	5,571	143,900	4,572	171,800	4,810
Age										
Under 35	54,747	2,079	58,702	2,871	50,682	4,854	44,367	2,917	60,180	3,100
35 to 64	159,667	3,118	135,248	5,729	131,495	6,472	158,399	5,965	185,420	6,950
65 and Over	151,073	5,059	146,075	4,826	165,857	7,419	184,773	6,770	244,950	6,500
Race/Ethnicity										
White	155,023	6,861	135,334	7,115	133,842	9,420	162,382	6,313	198,900	8,120
Black	60,429	0	62,118	991	59,790	1,040	73,234	1,808	69,000	1,890
Hispanic	49,106	568	59,445	817	77,150	2,254	76,195	2,177	70,560	2,650
Income										
Under $20,000	62,369	554	66,226	841	75,936	1,410	76,195	1,045	72,750	900
$20,000 - 49,999	116,672	8,316	98,373	8,662	98,532	9,847	111,571	7,837	111,890	7,670
$50,000 and Over	222,562	30,284	207,661	36,974	199,433	45,192	246,110	46,261	291,120	37,700

Note: Income categories are based on 2001 dollars adjusted by Survey of Consumer Finances inflators. White and black householders are non-Hispanic. Hispanic householders can be of any race.
Source: JCHS tabulations of the 1989, 1992, 1995, 1998, and 2001 Surveys of Consumer Finances.

Table A-5

Homeownership Rates by Age and Race/Ethnicity, 1993-2002

Percent

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total	63.7	64.0	64.7	65.4	65.7	66.3	66.8	67.4	67.8	67.9
White										
Under Age 35	44.6	44.0	44.8	45.9	45.5	46.0	45.9	47.2	48.0	48.4
Age 35-44	72.3	71.3	71.9	71.6	72.6	73.1	74.0	73.7	75.2	76.1
Age 45-54	80.1	80.2	80.4	80.8	80.1	80.4	81.2	82.0	81.9	81.9
Age 55-64	83.5	83.5	84.1	85.2	84.5	84.7	85.0	84.6	85.8	85.0
Age 65-74	83.5	83.0	84.0	85.5	85.5	85.5	86.3	86.9	86.0	86.3
Age 75 and Over	75.8	75.6	75.8	76.4	76.8	77.1	78.4	78.6	79.2	79.7
Total	70.4	70.0	70.7	71.6	71.7	72.2	73.0	73.5	74.2	74.7
Black										
Under Age 35	17.4	16.6	17.4	20.4	21.2	23.9	22.0	24.7	24.7	25.9
Age 35-44	41.4	41.5	40.5	41.4	44.9	45.3	44.8	45.7	49.1	47.4
Age 45-54	56.0	57.0	54.7	54.5	58.1	58.0	58.6	56.0	55.6	56.4
Age 55-64	62.6	62.1	62.5	63.3	62.0	60.2	58.4	63.8	61.4	63.8
Age 65-74	61.5	67.3	63.2	66.5	68.0	68.9	67.1	69.8	72.0	69.7
Age 75 and Over	63.2	67.7	64.1	68.3	69.9	67.1	68.6	70.9	75.9	73.5
Total	42.6	42.7	42.2	44.3	46.0	46.6	46.1	47.5	48.4	48.9
Hispanic										
Under Age 35	20.5	22.9	23.4	24.4	27.1	27.0	26.0	28.2	28.0	30.4
Age 35-44	43.3	45.8	46.1	42.9	45.9	47.3	46.7	51.2	49.0	51.1
Age 45-54	52.6	53.2	56.2	55.2	54.5	56.6	59.4	53.5	60.1	58.0
Age 55-64	62.8	60.5	62.4	56.4	58.6	64.7	68.4	61.4	61.8	65.0
Age 65-74	58.6	58.4	58.5	61.4	58.8	62.3	67.0	65.8	65.3	69.3
Age 75 and Over	52.0	58.8	63.2	58.2	54.4	59.9	59.0	56.3	64.2	65.0
Total	40.0	41.5	42.4	41.2	43.1	44.8	45.1	45.5	46.4	47.4
Asian/Other										
Under Age 35	29.3	27.1	29.9	27.7	27.5	30.0	26.4	29.7	29.5	30.5
Age 35-44	56.1	58.4	54.1	51.4	55.2	57.3	58.7	56.2	57.5	57.1
Age 45-54	66.0	64.7	62.8	65.8	69.9	66.8	69.1	69.6	71.4	67.7
Age 55-64	71.0	73.5	64.7	67.4	71.4	72.5	78.2	72.5	75.5	73.0
Age 65-74	59.3	70.6	68.1	68.3	75.2	63.5	68.6	69.8	66.5	69.7
Age 75 and Over	64.3	54.1	53.8	67.8	65.1	63.6	61.8	64.7	54.4	58.9
Total	51.9	51.4	50.7	50.3	52.7	53.5	53.4	53.9	53.9	53.9
All Races										
Under Age 35	38.0	37.3	38.0	39.1	39.0	39.6	38.8	40.4	40.7	41.3
Age 35-44	65.8	65.0	65.2	64.5	65.8	66.4	66.9	67.1	68.2	68.6
Age 45-54	75.2	75.2	75.1	75.5	75.4	75.5	76.5	76.3	76.6	76.2
Age 55-64	79.6	79.5	80.1	80.4	79.7	80.3	80.7	80.3	81.1	80.9
Age 65-74	79.9	80.2	80.5	82.2	82.3	82.3	83.0	83.6	83.0	83.1
Age 75 and Over	74.0	74.3	74.3	75.1	75.4	75.6	76.8	77.1	77.8	78.4

Note: White, black and Asian/other are non-Hispanic. Hispanic householders can be of any race. Asian/other includes Pacific Islanders, Aleuts and Native Americans. Caution should be used in interpreting year-over-year changes for certain age/race categories because of small sample sizes.
Sources: Total homeownership rate from the Census Bureau Housing Vacancy Survey's annual estimates; all other data from JCHS tabulations of the March Current Population Surveys.

Table A-6

Household Projections by Age, Race/Ethnicity, and Family Type, 2000-2020

Thousands

		White			Hispanic			Black			Asian/Other		
Year	Age	Family	Nonfamily	Total	Family	Nonfamily	Total	Family	Nonfamily	Total	Family	Nonfamily	Total
2000													
	15-24	1,946	1,813	3,759	645	172	817	635	278	913	122	142	264
	25-34	8,427	4,026	12,454	1,966	339	2,305	1,922	707	2,629	586	319	905
	35-44	13,797	3,988	17,785	2,233	354	2,587	2,479	823	3,302	874	195	1,069
	45-54	11,726	3,990	15,716	1,339	274	1,613	1,727	767	2,494	706	133	839
	55-64	7,604	3,157	10,762	711	230	941	923	596	1,518	387	95	481
	65-74	5,739	3,525	9,263	425	248	673	565	519	1,084	201	87	289
	75+	3,919	5,743	9,662	211	232	443	323	434	757	127	80	206
	Total	53,158	26,242	79,400	7,530	1,850	9,380	8,574	4,124	12,697	3,002	1,052	4,053
2010													
	15-24	2,108	1,956	4,064	838	226	1,064	741	325	1,066	160	188	348
	25-34	8,089	3,958	12,047	2,417	403	2,820	2,078	779	2,857	683	388	1,071
	35-44	10,984	3,361	14,345	2,722	414	3,136	2,381	827	3,207	1,063	266	1,329
	45-54	12,815	4,543	17,358	2,176	446	2,622	2,240	1,071	3,311	971	199	1,170
	55-64	10,563	4,746	15,310	1,220	413	1,633	1,417	983	2,400	665	172	837
	65-74	6,312	3,970	10,282	603	369	971	668	660	1,328	314	135	449
	75+	4,155	6,114	10,270	345	379	724	374	538	913	215	133	348
	Total	55,028	28,648	83,676	10,321	2,650	12,971	9,899	5,183	15,081	4,071	1,481	5,552
2020													
	15-24	1,929	1,788	3,717	1,046	280	1,326	684	300	985	200	234	434
	25-34	8,468	4,113	12,581	2,986	500	3,487	2,371	887	3,258	860	489	1,349
	35-44	10,721	3,291	14,012	3,211	488	3,699	2,561	888	3,449	1,234	309	1,543
	45-54	10,193	3,621	13,814	2,559	529	3,088	2,149	1,030	3,179	1,169	240	1,409
	55-64	11,785	5,315	17,100	1,912	650	2,562	1,883	1,317	3,200	904	235	1,139
	65-74	9,088	5,752	14,840	1,020	621	1,641	1,090	1,073	2,163	515	223	738
	75+	4,786	7,043	11,829	517	568	1,084	482	694	1,175	330	203	533
	Total	56,970	30,923	87,893	13,250	3,637	16,887	11,220	6,189	17,409	5,212	1,933	7,146

Notes: Numbers for 2000 are projections utilizing Census Bureau population projections and JCHS headship projections, based on analysis of the Current Population Survey. Family householders are defined as two or more related individuals sharing living quarters. White, black and Asian/other are non-Hispanic, and Hispanic householders can be of any race. Asian/other include Pacific Islanders, Aleuts and Native Americans.

Source: George Masnick and Zhu Xiao Di, *Projections of U. S. Households by Race/Hispanic Origin, Age, Family Type and Tenure: A Sensitivity Analysis*, prepared for the Department of Housing and Urban Development, February 2003.

All Households		
Family	Nonfamily	Total
3,348	2,406	5,753
12,902	5,391	18,293
19,383	5,360	24,743
15,498	5,164	20,661
9,624	4,078	13,702
6,930	4,379	11,309
4,579	6,489	11,069
72,264	33,267	105,531
3,848	2,695	6,543
13,267	5,528	18,795
17,150	4,867	22,017
18,202	6,260	24,461
13,866	6,314	20,180
7,897	5,133	13,030
5,090	7,164	12,254
79,319	37,961	117,280
3,860	2,602	6,462
14,686	5,989	20,674
17,726	4,977	22,703
16,070	5,421	21,491
16,484	7,516	24,001
11,712	7,669	19,381
6,115	8,507	14,622
86,652	42,681	129,334

Table A-7

Net Migration and Household Growth by State, 1990-2002

Annual Averages in Thousands

	Net International Migration		Net Domestic Migration		Household Growth	
	1990-2000	2000-2002	1990-2000	2000-2002	1990-2000	
					Number	Percent
NORTHEAST	**204.1**	**288.4**	**-316.1**	**-202.3**	**141.3**	**0.7**
New England	28.8	56.6	-49.1	-1.7	44.4	0.9
Connecticut	8.4	16.1	-22.8	-3.2	7.1	0.6
Maine	0.5	1.0	-0.4	7.0	5.3	1.1
Massachusetts	16.7	32.3	-24.4	-21.2	19.6	0.9
New Hampshire	0.9	2.3	4.0	10.7	6.3	1.5
Rhode Island	1.9	3.9	-6.2	3.4	3.0	0.8
Vermont	0.6	1.0	0.6	1.6	3.0	1.4
Middle Atlantic	175.3	231.8	-266.9	-200.6	96.9	0.7
New Jersey	42.0	62.8	-39.2	-23.5	27.0	1.0
New York	120.3	146.5	-200.1	-166.4	41.8	0.6
Pennsylvania	13.0	22.5	-27.6	-10.7	28.1	0.6
MIDWEST	**89.0**	**190.4**	**-75.2**	**-167.6**	**241.8**	**1.1**
East North Central	68.7	140.0	-85.3	-135.2	164.7	1.1
Illinois	43.7	74.8	-61.5	-73.9	39.0	0.9
Indiana	3.7	12.5	7.7	-7.8	27.1	1.3
Michigan	11.8	25.7	-21.2	-23.6	36.6	1.1
Ohio	6.3	16.4	-19.6	-33.2	35.8	0.9
Wisconsin	3.1	10.6	9.3	3.3	26.2	1.4
West North Central	20.3	50.4	10.1	-32.4	77.0	1.1
Iowa	2.6	7.1	-2.2	-11.4	8.5	0.8
Kansas	3.4	9.3	-2.2	-10.9	9.3	1.0
Minnesota	6.6	16.3	9.7	0.4	24.7	1.5
Missouri	4.6	10.5	10.3	3.4	23.3	1.2
Nebraska	1.9	5.5	-0.9	-6.5	6.4	1.1
North Dakota	0.6	0.8	-4.2	-5.9	1.6	0.7
South Dakota	0.6	0.9	-0.4	-1.6	3.1	1.2
SOUTH	**231.7**	**486.5**	**379.6**	**290.7**	**619.3**	**1.9**
South Atlantic	133.5	279.1	256.8	277.8	347.1	2.1
Delaware	1.1	2.6	3.8	4.2	5.1	2.1
District of Columbia	3.3	4.5	-14.7	-7.3	-0.1	-0.1
Florida	73.1	122.7	117.2	163.7	120.3	2.3
Georgia	13.4	44.8	71.5	43.3	64.0	2.7
Maryland	15.0	24.7	-5.4	14.6	23.2	1.3
North Carolina	8.0	37.8	58.5	31.8	61.5	2.4
South Carolina	2.4	8.4	15.4	13.4	27.6	2.2
Virginia	16.8	33.0	10.7	16.0	40.7	1.8
West Virginia	0.4	0.7	-0.2	-1.8	4.8	0.7
East South Central	8.4	26.7	61.6	0.7	95.5	1.7
Alabama	1.8	5.9	10.6	-5.9	23.0	1.5
Kentucky	2.0	6.5	10.0	1.7	21.1	1.5
Mississippi	0.8	2.6	4.3	-7.7	13.5	1.5
Tennessee	3.8	11.7	36.8	12.6	37.9	2.0
West South Central	89.8	180.6	61.3	12.3	176.7	1.8
Arkansas	1.3	5.4	11.1	0.9	15.2	1.7
Louisiana	2.9	4.7	-15.4	-25.1	15.7	1.0
Oklahoma	3.4	8.9	4.2	-4.1	13.6	1.1
Texas	82.2	161.6	61.4	40.6	132.2	2.2
WEST	**321.2**	**487.5**	**11.7**	**79.2**	**350.9**	**1.9**
Mountain	38.6	105.2	182.1	126.3	167.9	3.3
Arizona	12.9	39.9	63.2	60.8	53.2	3.9
Colorado	8.2	26.2	44.5	25.9	37.6	2.9
Idaho	2.1	3.5	14.1	6.8	10.9	3.0
Montana	0.3	0.5	4.8	0.2	5.3	1.7
Nevada	6.7	16.4	46.4	44.4	28.5	6.1
New Mexico	4.3	6.5	3.1	-2.8	13.5	2.5
Utah	3.8	11.7	6.5	-8.9	16.4	3.1
Wyoming	0.2	0.5	-0.5	-0.1	2.5	1.5
Pacific	282.7	382.3	-170.4	-47.1	183.1	1.3
Alaska	1.0	1.6	-2.8	-0.8	3.3	1.7
California	251.0	327.4	-221.3	-74.1	112.2	1.1
Hawaii	5.9	6.6	-11.2	-1.6	4.7	1.3
Oregon	7.7	16.5	27.3	15.0	23.0	2.1
Washington	17.0	30.3	37.6	14.3	39.9	2.1

Notes: 2000-2002 net international migration estimates include a higher estimate of undocumented immigrants than the 1990s estimates. Change between 1999 and 2000 estimated from average of 1998-9 and 2000-1 figures. Household growth is from 1990 and 2000 100 percent Census counts, and includes effects of reduction in Census undercount.

Source: Census Bureau, State Population Estimates by Components of Change, 1990-2002.

Table A-6

Tenure Choices of Recent Movers, 2001

Thousands of Households

Previous Tenure	Own			Rent			Percent of Current Owners That Moved Within Previous Year	Percent of Moving Owners That Became Renters
Current Tenure	Own	Rent	All	Own	Rent	All		
Total	4,783	2,315	7,098	5,028	11,172	16,200	13.6	32.6
Age								
Under Age 35	1,068	808	1,877	2,554	6,625	9,179	35.2	43.1
35-44	1,448	606	2,055	1,342	2,312	3,654	17.1	29.5
45-54	982	442	1,424	660	1,230	1,891	9.9	31.1
55-64	705	202	907	309	518	827	8.8	22.3
65 and Over	579	256	835	163	486	649	4.2	30.7
Family Type								
Married without Children	1,551	292	1,844	1,236	1,232	2,468	10.9	15.9
Married with Children	1,751	327	2,078	1,624	1,931	3,556	17.3	15.7
Single Parent	260	402	662	555	2,188	2,743	19.4	60.8
Other Family	243	135	378	252	631	883	10.0	35.6
Single Person	786	972	1,759	966	3,520	4,486	11.4	55.3
Other Nonfamily	191	186	378	395	1,669	2,064	23.2	49.3
Race/Ethnicity								
White	4,152	1,634	5,786	3,605	6,579	10,184	13.2	28.2
Hispanic	269	238	507	556	1,735	2,291	17.4	47.0
Black	213	325	538	534	2,118	2,652	12.0	60.4
Asian/Other	149	117	266	333	740	1,073	20.0	44.0
Region								
Northeast	651	312	964	740	1,654	2,394	10.7	32.4
Midwest	1,188	495	1,683	1,080	2,213	3,294	12.6	29.4
South	1,868	932	2,800	1,885	4,294	6,179	14.0	33.3
West	1,076	576	1,651	1,323	3,010	4,333	16.5	34.9
Metropolitan Status								
Center City	856	858	1,713	1,347	5,066	6,413	13.6	50.1
Suburban	2,727	982	3,709	2,684	4,311	6,995	14.2	26.5
Non-Metropolitan	1,200	475	1,675	997	1,795	2,792	12.2	28.4
Marital Status								
Married, Spouse Present	3,302	619	3,922	2,860	3,163	6,024	13.6	15.8
Married, Spouse Absent	64	80	144	67	254	321	13.0	55.6
Widowed	337	214	551	136	416	552	5.2	38.8
Divorced	711	643	1,353	792	1,900	2,692	15.9	47.5
Separated	58	205	263	109	598	707	16.2	78.0
Never Married	311	554	865	1,063	4,841	5,904	21.1	64.0
Stated Reasons for Moving								
All reasons of equal importance	102	39	141	119	170	289	na	27.4
Private company or person wanted to use it	10	10	20	29	211	239	na	49.5
Forced to leave by the government	18	0	18	7	40	47	na	0.0
Disaster loss (fire, flood, etc.)	15	19	34	16	57	73	na	56.6
New job or job transfer	497	303	799	292	1,313	1,606	na	37.9
To be closer to work/school/other	269	170	440	178	1,120	1,298	na	38.7
Other, financial/employment related	73	87	160	78	375	453	na	54.5
To establish own household	135	156	291	833	717	1,550	na	53.8
Needed a larger house or apartment	866	57	922	433	1,359	1,791	na	6.1
Married, widowed, divorced, or separated	296	370	666	113	316	429	na	55.5
Other, family/personal related	360	211	571	190	772	962	na	37.0
Wanted a better quality house (apartment)	633	58	691	309	1,065	1,374	na	8.5
Change from owner to renter OR renter to owner	68	92	160	1,330	46	1,376	na	57.2
Wanted lower rent or less expensive house to maintain	100	72	172	79	763	842	na	41.7
Other housing related reasons	263	90	353	103	614	716	na	25.6
Other	785	276	1,061	334	1,360	1,695	na	26.0

Notes: Recent movers are householders who changed their primary residences in the preceding year. Moving homeowners are current householders that moved in the previous 12 months from a home they owned or co-owned. White, black and Asian/other householders are non-Hispanic. Hispanic householders may be of any race. Asian/other includes Pacific Islanders, Aleuts and Native Americans. Married-couple households with one spouse absent are not included in the counts of married couples with and without children.
Source: JCHS tabulations of the 2001 American Housing Survey.

Table A-9

Lowest-Income Households By Cost Burdens, 1997 and 2001

Thousands of Households in the Bottom Income Quintile

	1997				2001			
	Not Burdened	Moderately Burdened	Severely Burdened	Total	Not Burdened	Moderately Burdened	Severely Burdened	Total
Total	5,326	4,561	10,078	19,966	5,918	4,867	10,593	21,377
Age								
Under Age 35	760	921	2,775	4,455	701	1,125	2,693	4,518
35-44	531	575	1,728	2,834	567	525	1,458	2,55
45-54	444	495	1,195	2,134	630	559	1,379	2,568
55-64	526	492	1,265	2,282	698	548	1,398	2,644
65 and Over	3,066	2,079	3,115	8,261	3,321	2,110	3,665	9,096
Race/Ethnicity								
Asian/Other	156	118	414	688	163	146	443	752
Black	937	930	2,190	4,057	966	950	2,379	4,295
Hispanic	481	473	1,338	2,292	468	569	1,297	2,335
White	3,751	3,040	6,136	12,928	4,319	3,201	6,474	13,994
Family Type								
Married without Children	864	718	1,586	3,168	1,116	740	1,787	3,643
Married with Children	286	296	937	1,519	202	319	700	1,221
Single Parent	620	638	1,787	3,045	560	668	1,787	3,015
Other Family	345	343	841	1,530	427	364	847	1,638
Single Person	3,092	2,413	4,397	9,902	3,494	2,595	4,877	10,966
Other Nonfamily	118	152	531	802	118	180	595	893
Tenure								
Owners with Mortgages	126	393	1,648	2,166	157	517	2,168	2,841
Owners without Mortgages	3,060	1,716	2,341	7,117	3,521	1,742	2,481	7,743
Renters	2,140	2,452	6,090	10,682	2,240	2,609	5,944	10,793
Region								
Northeast	676	935	2,408	4,019	902	881	2,349	4,132
Midwest	1,303	1,084	1,864	4,251	1,406	1,207	2,045	4,657
South	2,508	1,732	3,525	7,765	2,749	1,939	4,038	8,725
West	840	811	2,281	3,931	861	840	2,161	3,862
Metropolitan Status								
Center City	1,403	1,698	4,228	7,329	1,550	1,741	4,225	7,516
Suburban	1,633	1,488	3,787	6,909	1,937	1,672	4,167	7,776
Non Metropolitan	2,290	1,375	2,063	5,728	2,431	1,454	2,201	6,085

Notes: Unburdened households pay 30% or less of monthly income for housing, including utilities. Moderately burdened households pay between 30% and 50% of income for housing. Severely burdened households pay more than half their incomes for housing. White, black and Asian/other are non-Hispanic, and Hispanic householders may be of any race. Asian/other includes Native Americans, Aleuts and Pacific Islanders. Income quintiles are equal fifths of households grouped by income, adjusted for data anomalies. Households with income below half of the full-time minimum wage equivalent ($10,712 in 2003), but with high housing costs and no other apparent housing problems, or with reported investment income in excess of $25,000, were assumed to have the local median income, prior to the quintile definitions. The cut-offs for the quintiles in 2001 were $17,000, $32,000, $50,000 and $81,000.

Source: JCHS tabulations of the 1997 and 2001 American Housing Surveys, using consistent 1983 metro boundaries.

Table A-10

Incidence of Housing Problems, 1997-2001

Thousands of Households

Income Quintiles	1997 Bottom	1997 Lower-Middle	1997 Middle	1997 Upper-Middle	1997 Top	1997 Total	2001 Bottom	2001 Lower-Middle	2001 Middle	2001 Upper-Middle	2001 Top	2001 Total
Owner Households	9,283	11,232	12,563	14,946	17,463	65,487	10,585	12,424	13,700	16,654	19,002	72,365
Owner Households with Problems	6,481	4,121	3,088	2,093	1,175	16,958	7,255	4,862	4,069	2,719	1,385	20,290
Cost Burdens												
No Burden	3,186	7,667	10,100	13,500	16,800	51,253	3,678	8,091	10,300	14,500	18,200	54,769
Moderate Burden	2,109	2,408	1,970	1,347	633	8,467	2,258	2,786	2,722	1,799	687	10,253
Severe Burden	3,988	1,157	493	142	15	5,795	4,649	1,547	721	316	110	7,343
Crowding												
Not Crowded	9,157	11,100	12,300	14,700	17,300	64,557	10,500	12,300	13,400	16,400	18,800	71,400
Crowded	126	164	220	223	183	916	110	173	255	233	208	979
Inadequate Units												
Adequate	8,501	10,600	12,000	14,500	17,100	62,701	9,731	11,800	13,100	16,200	18,600	69,431
Moderately Inadequate	560	508	463	348	290	2,170	599	463	390	305	250	2,007
Severely Inadequate	222	138	125	133	107	725	255	201	174	165	160	955
Multiple Problems	513	243	181	97	53	1,087	595	298	195	95	31	1,213
Renter Households	10,682	9,173	6,924	4,808	2,413	34,000	10,793	8,865	7,482	4,767	2,135	34,042
Renter Households with Problems	8,956	5,167	1,617	681	305	16,726	8,886	4,788	1,869	842	304	16,689
Cost Burdens												
No Burden	2,140	4,828	6,154	4,655	2,409	20,186	2,240	4,838	6,451	4,478	2,089	20,097
Moderate Burden	2,452	3,531	751	150	5	6,889	2,609	3,252	880	241	46	7,027
Severe Burden	6,090	814	19	2	0	6,925	5,944	776	151	48	0	6,918
Crowding												
Not Crowded	10,100	8,544	6,553	4,586	2,333	32,116	10,300	8,395	7,101	4,515	2,033	32,344
Crowded	589	629	371	222	80	1,891	468	471	381	252	102	1,674
Inadequate Units												
Adequate	8,904	8,129	6,274	4,430	2,170	29,907	9,170	7,938	6,875	4,383	1,958	30,324
Moderately Inadequate	1,283	793	464	300	181	3,021	1,093	652	440	252	102	2,538
Severely Inadequate	495	250	186	78	62	1,072	530	275	167	133	75	1,181
Multiple Problems	1,801	756	171	71	23	2,822	1,653	602	149	74	21	2,499
All Households	19,966	20,405	19,486	19,754	19,876	99,487	21,377	21,289	21,182	21,421	21,137	106,407
All Households with Problems	15,436	9,288	4,704	2,775	1,480	33,684	16,141	9,650	5,937	3,561	1,689	36,978
Cost Burdens												
No Burden	5,326	12,500	16,300	18,100	19,200	71,426	5,918	12,900	16,700	19,000	20,300	74,818
Moderate Burden	4,561	5,938	2,721	1,498	638	15,356	4,867	6,038	3,602	2,040	733	17,280
Severe Burden	10,100	1,972	511	144	15	12,742	10,600	2,323	872	363	110	14,268
Crowding												
Not Crowded	19,200	19,600	18,900	19,300	19,600	96,600	20,800	20,600	20,500	20,900	20,800	103,600
Crowded	716	793	591	445	263	2,806	578	644	636	485	310	2,653
Inadequate Units												
Adequate	17,400	18,700	18,200	18,900	19,200	92,400	18,900	19,700	20,000	20,600	20,500	99,700
Moderately Inadequate	1,843	1,302	927	648	471	5,191	1,691	1,115	830	557	352	4,545
Severely Inadequate	718	388	311	211	169	1,796	785	476	341	297	236	2,136
Multiple Problems	2,313	1,000	352	168	76	3,909	2,248	899	344	169	51	3,712

Notes: Housing problem categories are not mutually exclusive. Severely cost-burdened households are those spending more than 50% of monthly income on housing. Moderately cost-burdened households are those spending between 30% and 50% of monthly income on housing. Crowded households are those with more than one occupant per room. Severely and moderately inadequate housing units are defined by HUD. See Table A-9 for description of income quintiles.
Source: JCHS tabulations of the 1997 and 2001 American Housing Surveys, using consistent 1983 metro boundaries.

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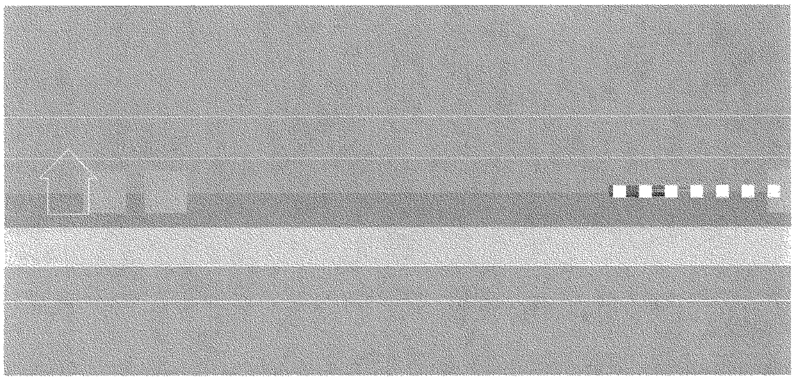

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Let's End Housing Vouchers

The politically popular Section 8 program ruins neighborhoods and perpetuates poverty.

Howard Husock

Though crime-ridden high-rise projects are public housing policy's most abiding symbol, the majority of today's subsidized tenants don't live in them. Instead, 1.7 million households now get government vouchers that help pay their rent in the private market, at a cost of over $13 billion a year—a third of HUD's total budget. Liberals embrace these vouchers because they believe poor families can never afford decent market-rate housing; conservatives like the vouchers' ostensible free-market mechanism, which harnesses the private sector to serve a public goal. In Washington, the only question is how much to increase spending on the program. But out in the blue-collar and middle-class neighborhoods where voucher holders increasingly live, longtime residents hate the program. It undermines and destabilizes their communities by importing social problems into their midst, they say—vociferously enough to get the attention of local legislators. Though the program's supporters dismiss the critics (some of whom are black) as racists, they are nothing of the kind. And they are right.

In south suburban Chicago, with one of the highest concentrations of voucher holders in the country, middle-class African-American residents complain that they thought they'd left the ghetto behind—only to find that the federal government is subsidizing it to follow them. Vikkey Perez of Richton Park, Illinois, owner of Nubian Beauty Supply, fears that the small signs of disorder that have come with voucher tenants—the unmown lawns and shopping carts left in the street—could undermine the neighborhood. "Their life-style," she says, "doesn't blend with our suburban life-style." Kevin Moore, a hospital administrator and homeowner in nearby Hazelcrest, complains that children in voucher homes go unsupervised. Boom boxes play late at night. "I felt like I was back on the West Side," he says, referring to the Chicago ghetto where he grew up. "You have to remember how to act tough."

In South Philadelphia's Irish and Italian neighborhoods, which have seen an influx of voucher holders, elected officials report being inundated with constituent complaints—and watching white constituents move out of the neighborhood. The area's state representative, William Keller, describes how owners of row houses suddenly find that "the house next door is being rented to people whose kids are up all night, who are out in the street yelling 'M-F' this and 'M-F' that. It's like they're trying to find the worst people." The issue, he says, "isn't race; it's class."

In Maryland's Prince George's County, an area of the Washington, D.C., suburbs with a large concentration of middle-class black residents, hundreds of voucher tenants—many of whom come from Washington, since vouchers are portable from one jurisdiction to another—do not pay their utility bills or their required 30 percent share of the rent. "We're very concerned about the program," says Mary Lou McDonough of the Prince George's Housing Authority, which doles out the vouchers. The Authority is concerned about more than non-payment. Unlike most such agencies, it screens its voucher applicants, and it finds that some of the households have criminal records—including, recently, a murder conviction. Every year, the authority boots out 25 or 30 voucher holders for brand-new crimes, usually drug-related.

How could so politically popular a program become so fraught with trouble? The problem lies both in the program's underlying assumptions and its governing regulations. The idea began with Lyndon Johnson's Kaiser Commission on Urban Housing, which mistakenly believed that the private housing market couldn't provide the poor with decent homes they could afford, despite the fact that for much of the twentieth century it did so quite well. "The root of the problem in housing America's poor," the commissioners wrote, "is the gap between the price that private enterprise must receive and the price the poor can afford. The economic gap

Photographs by Todd Buchanan

Suburban Chicago homeowner Kevin Moore complains that kids in Section 8 homes go unsupervised. "I felt like I was back on the West Side," he says, referring to the tough Chicago ghetto where he grew up.

separating millions of deprived families from adequate housing can only be bridged by government subsidies. Such subsidies create an effective and real market demand to which private enterprise has proved it will respond."

Accepting this rationale, the Nixon administration, stung by scandals and cost overruns in federally subsidized housing construction, proposed the Housing and Community Development Act of 1974, whose Section 8 authorized federal rent subsidies for privately owned apartments. These so-called Section 8 vouchers appealed to Republicans because of their contrast with public housing built and operated at government expense. Not only did vouchers rely on the private market, but also they did not require public housing's ongoing maintenance costs.

As the prógram expanded, Republican officials continued to focus on the mechanics and efficiency of the program, without stopping to reconsider its fundamental assumption that, without subsidies, the private housing market couldn't serve the poor. For example, John Weicher, a Republican former HUD deputy assistant secretary now with the Hudson Institute, maintained that, through Section 8, "we can achieve the modest degree of improvement needed to bring many of our dwellings up to current quality standards and can provide significant financial relief for many hard-pressed poor families." The program, he thought, would allow the poor to move to "better neighborhoods," as if—another faulty assumption—a move to a middle-class environment would make them middle class.

Today's housing bureaucrats continue to take as gospel the Kaiser Commission's core belief that housing—unless it's a shanty or a cold-water flat—will inevitably be too expensive for families of modest means. One example of many: a HUD press release this March bore the headline GOOD TIMES FOR MANY DON'T END HARD TIMES FOR LOW-INCOME RENTERS; DESPITE ECONOMIC BOOM, HUD FINDS HOUSING CRISIS DEEPENING.

But federal numbers don't support this assertion. Poor families *can* afford existing private housing without a subsidy—so long as the family has two earners. The federal government figures that it takes $27,000 for a family of four in Philadelphia to afford a house—that's where the voucher kicks in. But this is only barely above the $24,000 that two people earning the minimum wage would jointly earn. The additional support the Earned Income Tax Credit gives the working poor would close this "housing gap" even further, providing a $1,300 payment to a household with two children. In other words, the government officially presumes that a household in which two people earn only barely more than the minimum wage (and in this time of full employment, many unskilled workers make more) could afford private, unsubsidized housing. (Of course, a stay-at-home spouse who saved a family child-care expenses would have the same economic effect as a second job holder.) Our "housing problem," then, really is just another name for our single-parent family and illegitimacy problems, with female-headed households making up fully 84 percent of voucher holders (and a comparable percentage of public housing tenants, too).

"Our 'housing problem' really is just another name for our single-parent family and illegitimacy problems."

Erroneous assumptions about housing affordability rest upon a failure to understand the importance of the means—marriage and thrift, above all—by which families improve their prospects so they can move to a good home in a good neighborhood. Better neighborhoods are not better because of something in the water but because people have built and sustained them by their efforts, their values, and their commitments. Voucher appropriations are based not only on the mistaken belief that it is necessary to award, at public expense, a better home to all who can demonstrate "need," but also that it is uplifting to do so, when in fact it is the effort to achieve the good home, rather than the good home in itself, that is the real engine of uplift.

Add to these misunderstandings the unanticipated effects of the Section 8 program's design, and you have a lethal mix. Although anyone earning less than 80 percent of the median income in theory qualifies for the program, vouchers are in limited supply, and priority goes to the poorest applicants. By law, fully 75 percent of vouchers must go to households earning only 30 percent or less of median family income. Local housing authorities can go even further in targeting the "neediest"; a quarter of Philadelphia's vouchers, for instance, go to those living in homeless shelters. These priorities are what torque the voucher program toward single-parent households, the country's lowest income group.

The priority given to such households, many of them on welfare or only recently off the rolls, forms part of a package of benefits—including food stamps, Medicaid, and the Earned Income Tax Credit—that have no time limits and that, taken together, constitute significant continuing public support for single-parent low-income households. So counter does this open-ended housing voucher run to welfare reform's five-year limit that Philadelphia's brochures that describe the program stress that, no, there really is no time limit.

What's more, the program has the effect of concentrating problem-ridden, very poor single-parent families in specific neighborhoods. Under normal circumstances, Section 8 tenants would be concentrated anyway. Most landlords would shun them, for fear they would damage their property. Only owners of hard-to-rent, run-down buildings would welcome them, and these properties would be concentrated in marginal neighborhoods struggling hard to maintain their respectability. Other things being equal, landlords would try hard to find respectable working-class tenants before renting to subsidized Section 8 families.

But other things are not equal. Voucher tenants come with significant advantages to outweigh their drawbacks. Landlords don't have to worry about non-payment, since the government deposits its share of the rent—the lion's share—directly into the property owner's bank account. Moreover, for properties in precariously respectable neighborhoods, the government-paid rent is more than the market rent. Reason: the Section 8 program allows voucher holders to pay up to the average rent in their entire metropolitan area, and landlords in working-class or lower-middle-class neighborhoods, where rents are below average, simply charge voucher holders exactly that average rent. Assured payment and a more-than-generous risk premium: no wonder some landlords in neighborhoods teetering on the brink of respectability gladly welcome voucher tenants over working-class families offering lower rents and so accelerate neighborhood decline. South Philadelphia state representative William Keller tells of local property owners who "couldn't rent their place for $500, but they can get $900 from Section 8."

The result is a familiar government-subsidized racket: landlords who specialize in Section 8s—who advertise for them and know the bureaucratic rules about what it takes to get paid. In Philadelphia, state representatives and members of the City Council say that they get daily complaints about Section 8 tenants, and they keep a list of landlords and their Section 8 holdings. "There are guys with 100 Section 8 houses," says Philadelphia city councilman James Kenney. "They're clearing $40,000 a month just in Section 8 income." In south suburban Chicago, Section 8 tenants have taken over whole subdivisions of attached row houses. One subdivision in the Riverdale suburb is now a virtual Section 8 ghetto, with more than 200 voucher holders, and the whole of Riverdale has 336 voucher households out of a total population of just 13,000. Locals have nicknamed the bus that takes many of these minority voucher holders to the plentiful low-wage jobs of the western suburbs the "Apartheid Express."

As Democratic Senator Barbara Mikulski of Maryland points out, vouchers are replacing "vertical ghettos with horizontal ones." The southern suburbs of Chicago, where anger over Section 8 is reaching the boiling point, have absorbed almost 58 percent of all the Cook County Housing Authority's vouchers—more, in other words, than all the other parts of Chicago and its suburbs combined. All but a handful of the voucher-holders who moved from Washington, D.C., to its suburbs ended up in Maryland's Prince George's County. In Philadelphia, 45 percent of voucher holders inhabit just two of the city's five major sections—South Philadelphia and Northeast Philadelphia—blue-collar areas unaccustomed to subsidized housing.

The effects of a concentration of voucher holders on a small municipality are profound. "It has touched every aspect of the city government," says Riverdale mayor Joe Szabo. Like most of the municipalities south of Chicago, where the now-vanished steel mills and other heavy industry once clustered, this town of small ranch houses dwarfed by looming power-line stanchions has always been a solidly blue-collar place, with an active community life. Recently, though, Szabo has noticed things changing. There are more children than ever in town, but the once-popular youth football program has died. "We just can't get parent volunteers," he says. The mayor pushes park officials to mount more and more programs for lower-income children but finds that the kids' mothers just don't take the time to sign them up. "We'd have to go to individual households and convince them to send their kids, and even then they might not show up," he reports.

Demands have risen, though, for other sorts of public services. EMT crews respond to emergency calls to find callers, accustomed to city emergency rooms, simply saying they're "feeling ill." Riverdale's Potter elementary school, once boasting a top academic reputation, now has the state's highest student turnover. Student achievement has dropped—putting paid to the idea that shipping poor families to good schools in the suburbs will cause an education ethic to rub off. Instead, the concentration of disorganized families has undermined a once good school. School funds, says the mayor, must now be diverted to the legions of "special needs" students. Crime is up, too—"we have real legitimate gang issues now," the mayor says—and the city has had to increase its police force by 35 percent, from 26 to 35. That's pushing the tax rate up, which the mayor fears will discourage new home buyers, pushing the small city into a cycle of decline. A lack of local buying power—a function of the voucher program's preference for very low-income renters—has already left storefronts abandoned on Riverdale's main street.

Wayne Curry, the elected county executive of Maryland's Prince George's County (and the first African-American to hold the job), has similar worries about the impact of voucher holders on his jurisdiction. As the *Washington Post* observed in March: "Curry is trying to grow the economic base of Prince George's—which has one of the nation's largest black middle-class communities—by attracting higher-income residents that draw merchants and businesses. Taking in a larger share of the region's poor runs counter to that goal."

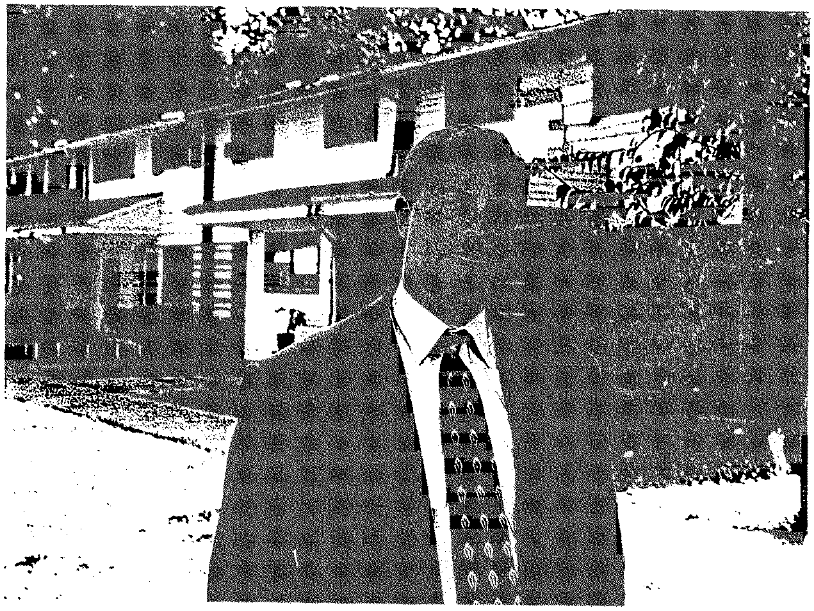
"Vouchers can lead to the deterioration of individual properties as well as of whole neighborhoods."

Vouchers can lead to the deterioration of individual properties as well as of whole neighborhoods. Most landlords are unwilling to rent to voucher tenants: 40 percent of the voucher funds in Cook County, and $1 billion nationally, went unused because voucher holders couldn't find landlords willing to accept their scrip. Throughout California, where landlords can find solid working-class tenants who can pay more than the vouchers pay, voucher tenants are not welcome. So voucher holders, once they succeed in finding housing, tend not to rock the boat, contrary to the expectation that they would exert leverage on landlords to keep up their properties. Moreover, observes assistant manager Patrick Finn of the village of Flossmoor in south suburban Chicago, "If you are only paying $200, and you're getting a $700 or $800 apartment, your expectations are low. It's not your money. Section 8 supports the weakest section of the real-estate market—the house that can't sell, the absentee owner who doesn't perform well in the private marketplace. It subsidizes the marginal sector."

Though in theory the voucher program was supposed to promote racial integration as inner-city minority households used their vouchers to move to previously all-white suburban neighborhoods, the effect in practice appears to be just the opposite. Vouchers are creating new, all-black communities. Joe Martin, director of an organization that has been trying for more than 20 years to attract middle-class African-American newcomers to south suburban Chicago while retaining long-term white residents, notes that the spread of voucher holders makes his already difficult task harder. "Voucher holders," he says, "have the effect of confirming the worst stereotypes." Racial integration is hard enough when whites and blacks are at relatively similar incomes. Mixing poverty-level blacks—by design of the Section 8 program—with middle-class whites is a recipe for racial instability.

But voucher-related racial problems are not confined to suburbs. The majority of voucher placements are, in fact, in lower-income urban neighborhoods, many of which are oases of hardworking families trying to maintain their properties. These are people who must be allowed to distinguish themselves from the disorderly poor. When the shabby-genteel neighborhood is white and the disorderly poor who arrive are black, the mixture is explosive—as in Philadelphia, where the Housing Authority has consistently placed the "worst stereotypes," minority former shelter residents and long-term public housing tenants, in historically white ethnic blue-collar neighborhoods.

In South Philly, the neighborhood office of state representative William Keller bustles with irate residents whose entire net worth is tied up in their homes and who fear that the presence of voucher holders will undermine the value of their property. At a City Council hearing last year, Lynne Rotoli of the Mayfair Civic Association in Northeast Philly blamed vouchers for the fact that property values in her neighborhood were declining while taxes were going up. Residents of absentee-owned rental properties did not participate in community life, she said, and subsidized tenants kept late hours, making it



Riverdale, Illinois, mayor Joe Szabo has watched housing vouchers destroy the sense of community in his once solidly blue-collar Chicago suburb. "We have real legitimate gang issues now," he says.

hard for those getting up to go to work in the morning to sleep. "We are afraid," she told the Council hearing, "that the Section embodies everything that we, the middle-class people, fear."

One tragedy in the voucher saga is that some black elected officials—Pennsylvania congressman Chaka Fattah, for instance—dismiss such heartfelt concerns as racist. Such attacks leave bitterness in their wake. "You know what bothers me?" one South Philadelphia resident confided in Representative Keller's office. "I've got two kids. You know why I don't have three? Because I can't afford it. And I see people with three or four kids and no father getting a subsidy to live in my neighborhood—which means I'm paying to help them. And complaining about it makes me a racist." Being black doesn't shield you from being labeled with the R-word when you attack Section 8. African-American local officials in predominantly black Matteson, Illinois, report that they've been accused of racism over the city's decision to advise landlords that it may be better to leave a unit temporarily vacant than to rent to a voucher holder.

Harvard sociologist William Julius Wilson famously argued that class, not race, is the most powerful divide that separates Americans today. Frank Arceneaux, an African-American state trooper who owns a home in Matteson and rental property in nearby Richton Park, illustrates Wilson's point as well as anyone—and he puts the lie to the idea that opposition to vouchers is inherently racist. He's become afraid to send his wife to collect rents in the apartment building he owns because of the presence of Section 8 tenants at a building nearby. "Section 8 brings a life-style from the city that I tried to escape from," he says. "It's a value difference. It's all single mothers. They let their kids stay out until midnight. I admit I'm prejudiced against blacks—blacks who don't honor my values. I can understand white flight. I'd like to fly, too, but I can't. I've maxed out my income. I'm not gonna get rich all of a sudden. I've got to stay and fight."

Critics of the voucher program propose three fixes, all of dubious efficacy. The first is the idea of "deconcentrating" voucher holders. South suburban Chicago congressman Jerry Weller (who represents Riverdale) went so far as to propose a 20 percent cap on voucher holders in a given census tract. Congressman Jesse Jackson Jr., who holds a key seat on the House Housing Committee, endorsed a version of the idea of a cap, or moratorium, in a letter to the *Chicago Sun-Times* last December. In a bid to placate his significant constituency in the southern suburbs, Jackson proposed that the moratorium apply to any "South Side neighborhood or southern suburb that is experiencing zero or negative economic growth"—a tough standard to meet in these prosperous times. But to spread out Section 8 tenants into other, wealthier neighborhoods would require HUD to pay even higher reimbursements to landlords—a tough sell to many legislators—and even so, landlords with other prospective tenants to choose from would resist voucher holders. It is so difficult to place voucher tenants in so-called nontraditional areas that a south suburban Chicago nonprofit dedicated to that purpose—Housing Choice Partners—has been able to place only 225 of 9,200 voucher holders outside the Section 8 corridors, despite personal counseling of voucher holders and assurance to landlords that the prospective tenants were not disruptive.

"'I can understand white flight. I'd like to fly, too, but I can't. I've maxed out my income. I've got to stay and fight.'"

A second proposed improvement, also aimed at deconcentrating voucher tenants, is to align the value of vouchers more closely with actual private rents in a given neighborhood, to make the program less of a windfall for the owners of marginal housing. But for landlords willing to amass large blocks of such properties to rent to Section 8 tenants, the guarantee of even average rents in poor neighborhoods, deposited directly in their bank accounts each month by the government, will remain a temptation. It's an easy, risk-free way to make money.

The last proposed fix is to screen tenants. In fact, housing authorities already have legislative license to screen out those who haven't paid their rent in the past or who have criminal convictions, but they are reluctant to do so. Observes a senior HUD official closely familiar with the Section 8 program: "If a family's been evicted for disturbance—drinking, making noise—typically the authority won't screen those families out. Authorities tend not to like to do heavy screening, because it puts them in a position of having to justify their actions legally. They're worried about some Legal Aid lawyer who's going to rake over their files and make their lives miserable." And if screening is difficult, revoking vouchers after a renter has moved in requires a major effort on the part of housing authorities. While housing authorities should certainly try to improve screening and should deal firmly with rowdy tenants, such screening cannot easily replace the screening that the housing market, left alone, would do to protect and sustain neighborhoods.

But maybe we would do better to rethink this issue completely. We could house the same population we now house with vouchers—primarily single mothers—in existing public housing projects. But we could transform those projects into something very different from what they are now—into institutional homes where unwed mothers could stay only for a fixed period of time (perhaps two years), during which time they might get instruction in parenting, along with encouragement to marry

State trooper Frank Arceneaux hates the voucher program: "Section 8 brings a life-style that I tried to escape from. It's a value difference. It's all single mothers. They let their kids stay out until midnight."

the fathers of their children. Such a system envisions personal and cultural change, not just redistribution of income. In this respect, even no system at all would be better than Section 8 vouchers. Were the public to withdraw the support that enables single-parent families to get their own apartments, the women might be forced to consider marriage or to live with their own extended families, which might provide more supervision for the children. As matters stand now, a young woman who has children as a teenager can qualify, at age 18, for her own voucher-paid house, and she can keep it in perpetuity. If her income is low because she has no work experience, she would get top priority.

Even if we were to accept the dubious Johnson administration view that the poor need more income in order to afford better housing, that doesn't mean that rent vouchers would be the right way to provide it. Through the Earned Income Tax Credit, poor working families today can qualify for tax "refunds" larger than the amount actually withheld from their paychecks. If we're convinced that we must provide financial support to the working poor, far better to do it this way—or to reduce the regressive Social Security tax—than to provide housing vouchers. Even with such an income supplement, a household would still have to strive and save to find a home in a better neighborhood. Its relationship with a landlord would not be distorted. It would have to adopt the habits of thrift and discipline that would win favor with middle-class neighbors.

What our experience with Section 8 vouchers teaches us is simply this: replacing an old failure with a new one should not be confused with success. ■

UNIVERSITY of VIRGINIA
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P.O. Box 400182 • 114 Rouss Hall • Charlottesville, VA 22904-4182

July 14, 2003

The Honorable Nydia M. Velazquez
2241 Rayburn Office Building
Washington, DC 20515-3212

Dear Ms. Velazquez:

Reviewing the transcript of the hearing of the Subcommittee on Housing and Community Opportunity on July 17 concerning the Housing Choice Voucher Program confirmed what I feared at the time, namely, that I provided poor answers to your questions. I must have suffered severe brain lock when you asked your first questions because my initial answer did not respond at all to your questions and your prodding did not yield a good answer. Please allow me to give more coherent and thoughtful answers.

You asked about my proposal for housing authorities to over-extend vouchers in accordance with success rates, specifically, that housing authorities should over-issue vouchers sufficiently to achieve a utilization rate close to 100 percent. Your first question was how I would handle the problem of more families finding a home than there are vouchers. You were concerned that housing authorities would be unable to honor commitments to families that were authorized to search for units, inconveniencing these families and the landlords of the dwellings that they wanted to occupy.

Over-issuing vouchers is not a new proposal but rather the current practice of housing authorities. In my judgment, housing authorities have the authority to administer the program in a manner that will yield utilization rates very close to 100 percent and simultaneously honor commitments to all families authorized to search for units. Housing authorities are allowed to have more vouchers in use at some times during the year than HUD has allocated them. Indeed, to say that a housing authority fully utilized its vouchers during a fiscal year is not to say that 100 percent of its vouchers were in use each day. Instead it would almost surely be the case that less than 100 percent of the vouchers allotted to the housing authority were in use on some days and more than 100 percent on other days. Furthermore, housing authorities are allowed to have utilization rates exceeding 100 percent for the entire fiscal year provided that they do not exceed the budget in their annual contribution contracts. If a housing authority's utilization rate exceeds 100 percent for the fiscal year and the total cost of the vouchers exceeds its budget, it must use its reserve fund to pay for the extra vouchers. HUD does not replace this shortfall. During the next fiscal year, the housing authority must authorize fewer families to search for vouchers until it rebuilds its reserve fund to be equal to one-twelfth of its annual budget. This system should be more than adequate to enable housing authorities to achieve a utilization rate close to 100 percent and still honor commitments to all families that were authorized to search for units because the reserve fund is substantial and families leave the program throughout the year. Over the entire country, eleven percent of voucher recipients leave the program each year.

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It is important to realize that a housing authority's decision concerning how many families to authorize to search for units during a year is not an irrevocable decision made at the beginning of the fiscal year. When a housing authority receives a new allocation of vouchers, it does have an important decision concerning how many searches to authorize immediately. However, if that decision leads to a utilization rate over 100 percent on the incremental vouchers, it can be offset later in the fiscal year by not authorizing additional searches when families leave the program. If this action does not bring the program within its annual budget, the housing authority uses its reserve fund.

In my attempt to answer your questions, I compared the performance of housing authorities and college admissions offices. In one respect, the job of the housing authority is easier than the job of the college admissions office. The college admissions dean is not able to adjust admissions continuously during the academic year to achieve a class of the desired size. Our dean of admissions has told me that he and his counterparts at other universities are almost always able to come within one percent of their desired class size despite acceptance rates far below 100 percent. Virginia's acceptance rate varies from year to year but averages about 50 percent. To avoid getting an entering class larger than desired, college admissions deans typically are conservative in the number of initial offers and then admit people from their waiting lists. This would seem to be a reasonable approach for housing authorities when they receive incremental vouchers.

To the best of my knowledge, no housing authority has failed to honor its commitment to a family that it authorized to search for a unit. If it has happened at all, it is surely very rare.

That said, it is clear that some housing authorities have had difficulties in achieving utilization rates close to 100 percent. In retrospect, I think that my judgment of their performance in my testimony was too harsh. Some larger authorities may have staff capable of designing reliable procedures for achieving full utilization, and other large authorities have hired contractors to help them solve this problem. However, the smallest authorities may not have the resources to do either, and it is inefficient for each housing authority to develop a procedure to solve the same problem. An obvious solution is for HUD's Office of Policy Development and Research to develop directly or through a contractor a procedure for adjusting the over-issuance of vouchers to insure utilization close to 100 percent and disseminate this procedure to all housing authorities.

The broad outline of the procedure is clear. At times during the fiscal year when average attrition from the program for the remainder of the fiscal year will lead to a utilization rate less than 100 percent, the housing authority should authorize additional families to search for units. The number of additional families authorized to search should depend on its utilization rate for the year to date and the program's recent success and turnover rates. PD&R or its contractor could easily develop a user friendly computer program that would allow the staff of any housing authority to input information relevant for calculating its utilization rate to date and its recent success and attrition rates. The output of the computer program would be the number of searches to authorize during the next week.

I apologize for my poor answers to your questions during the hearing, and I hope that these thoughts are of some help as you attempt to improve the operation of the Housing Choice Voucher Program.

Cordially,

Ed Olsen

Edgar O. Olsen
Professor of Economics

cc: The Honorable Robert W. Ney
Chairman, Subcommittee on Housing and Community Opportunity

APPENDIX

July 1, 2003

Opening Statement of the Honorable Bob Ney
Chairman
Subcommittee on Housing and Community Opportunity
Committee on Financial Services

"The Section 8 Housing Assistance Program: Promoting Decent Affordable Housing for Families and Individuals who Rent - LA Field Hearing"

Tuesday, July 1, 2003

Today, the Subcommittee continues its efforts to examine the current operation and administration of the Section 8 Housing Choice Voucher program and review various proposals intended to make the program more efficient and cost effective.

This is the fourth hearing in a series and the first field hearing on the Section 8 program. Michael Liu, Assistant Secretary of Public and Indian Housing at the Department of Housing and Urban Development, testified at the first hearing on May 22, 2003. On June 10, the Subcommittee heard testimony from representatives from tenant organizations, landlord and development organizations, large and small public housing agencies and the state housing finance agencies. On June 17, the Subcommittee heard from witnesses from the academic community and advocacy groups.

Since the 1970s, rental vouchers have been a mainstay of federal housing policy. Currently, the Section 8 housing voucher program supplements rents payments for approximately 1.5 million individuals and families.

While the concept of the program remains sound, the program has often been criticized for its inefficiency. More than a billion dollars are recaptured from the program every year, despite long waiting lists for vouchers in many communities. The rising cost of the Section 8 program and some of the administrative concerns have caused many in Congress and the Administration to conclude that the program is in need of reform.

Among the reforms that have been discussed is an Administration proposal to replace Section 8 tenant-based housing vouchers with state-managed block grants. Rather than contracting with an estimated 2,600 separate public housing authorities, as HUD does currently, the Department would allocate funds to the 50 states, which could then work with public housing agencies or other entities to administer the voucher program.

As well as examining the merits of this proposal, the Subcommittee continues to discuss other avenues for reform.

This afternoon, our two panels consist of government and non-government experts from the Los Angeles metropolitan area on the federal government's primary program for addressing the housing needs of low-income renters, Section 8.

I look forward to hearing the different perspectives and would like to welcome all of our distinguished witnesses as we discuss voucher utilization in a high cost area such as Los Angeles and ways to improve America's communities and strengthen housing opportunities for all citizens.

I now recognize the Gentlewoman from California and the Subcommittee's Ranking Member, Ms. Waters.

National Leased Housing Association
serving America's rental housing needs
NLHA

1818 N Street, NW, #405, Washington, DC 20036

Statement of Eugene Burger, Eugene Burger Management on behalf of the

NATIONAL LEASED HOUSING ASSOCIATION

Before the

House Committee on Financial Services

Subcommittee on Housing and Community Opportunity

July 1, 2003

Los Angeles, CA

National Leased Housing Association
serving America's rental housing needs
NLHA

1818 N Street, NW, #405, Washington, DC 20036

Statement of Eugene Burger
On Behalf of the National Leased Housing Association
July 1, 2003
Los Angeles, CA

Mr. Chairman and Members of the Subcommittee, my name is Eugene Burger and I am President of Eugene Burger Management, located in Greenbrae, California. I am representing the National Leased Housing Association, whose members include both owners and managers of Section 8 housing, as well as housing agencies that administer the Section 8 voucher program. We appreciate the opportunity to testify on H.R. 1841, the Administration's block grant or HANF program. **We urge the Subcommittee to reject H.R. 1841.** This is an unnecessary reform, because the Section 8 voucher program works quite well in its current form. In fact, the Section 8 subsidy has provided much needed rental assistance to low and moderate income tenants, so that they can live in safe, decent and affordable housing.

I would like to discuss two important points regarding the Administration's proposal: the effectiveness of the current system, and utilization of the Section 8 vouchers.

1) "If it ain't broke, don't fix it"

First, I would like to emphasize that the current delivery system of Section 8 vouchers to qualified low and moderate income families via Annual Contribution Contracts (ACC's) between the Department of Housing and Urban Development and the local public housing agencies has proven to be an efficient process. Housing agencies contract directly with HUD for funds needed to administer issuance of Section 8 vouchers. It's simple, it works.

However, under H.R. 1841, the State receives a block grant of funds from HUD to fund Section 8 vouchers. The State may, but is not required to subcontract with housing agencies or other entities within the state to administer vouchers. The problem is that H.R. 1841 would allow the states discretionary use of the block grant funds, thus the State could choose to use those funds for other than housing purposes, meaning that the public housing agencies would receive less funding than needed to administer their Section 8 vouchers. In a State, such as California, where there is a substantial budget shortfall, it is highly likely that block grant funds will be diverted to other programs at the state's discretion. And, because H.R. 1841 provides that funding for Section 8 vouchers in subsequent years is tied directly to the amount of funds used in the previous year, this diversion of block grant funds could, over a period of years, cause public housing authorities to lose their funding for Section 8 vouchers altogether. **Thus, we believe that block granting of Section 8 funds to the states could have disastrous results for affordable housing, and could have the long-term effect of eliminating Section 8 vouchers.** H.R. 1841 will only serve to widen the gap between the need for affordable housing subsidy and the amount of subsidy available. Again, the current system of delivering Section 8 voucher funding and administering Section 8 vouchers is working fine. It ain't broke, so don't fix it.

2) Utilization of the Section 8 Vouchers In High Rent Areas

The statistical utilization rates for Section 8 vouchers for the Los Angeles area market are very high, somewhere in the mid 90% range. However, we believe the utilization rate would be closer to 100 percent, if the rents permitted under the voucher program kept pace with rising rental markets.

One of the important benefits of Section 8 vouchers is their portability feature. In theory, a Section 8 voucher issued by a public housing agency in Los Angeles to a low income family can be taken to any rental property, so that the family can live wherever they choose. This is a laudable goal, albeit an unrealistic goal, due to the limits imposed on the value of the Section 8 voucher. The reality is that the FMR-based limit on the value of the voucher relegates the family to lower rent areas.

Currently, the payment standards set by the housing agencies are tied to the Fair Market Rent. However, the HUD established Fair Market Rents are often not reflective of real market conditions, especially in places like Los Angeles where rents continue to rise. HUD has taken steps to rectify this situation in recent years by providing higher FMRs in certain markets, but often the FMR rents lag behind the actual rents in the area. When you compare actual comparable market rents to the FMR's in high rent areas, you realize that the FMR's are not fair nor market. The result is that the voucher payment standard limits the value of the Section 8 voucher such that it does not cover the owner's prescribed rent, which is based on actual market rent, not the FMR.

Ideally, the housing agency should be able to set is payment standard relative to the real market rents in the areas it serves. However, if the Fair Market Rent standard is to continue to be used, PHAs should be able to set the payment standard at whatever percentage of FMR is necessary to accommodate the market rents in the area. Currently, PHAs are limited to setting their payment standards at 110 percent of FMR, 120 percent with HUD permission, but that is often not sufficient.

With more realistic rental standards, lease-up rates would rise and remain high even in tight rental markets.

In conclusion, H.R. 1841 does not address the issue of utilization of Section 8 vouchers, and it does absolutely nothing to improve the mechanism for delivery of the funding and administration of the Section 8 voucher program.. On the contrary, by block granting the Section 8 voucher funds to the states, where they are vulnerable to be siphoned off to fund state budget shortfalls, H.R. 1841 stands to place the future of Section 8 vouchers in grave doubt. As mentioned, the current delivery system is alive and well. **H.R. 1841 is ill-conceived and unnecessary, and we urge you to reject this harmful bill.**

Thank you for consideration of our views. NLHA stands ready to work with the committee on affordable housing issues. I would be happy to answer any questions that you have.

Testimony of Jeff Farber
Chief Operating Officer
L.A. Family Housing

July 1, 2003
Los Angeles, California

Chairman Ney, Ranking Member Waters, and members of the Subcommittee on Housing and Community Opportunity, thank you for the opportunity to offer testimony today focusing on "Section 8 Housing Assistance Program: Promoting Decent Affordable Housing for Families and Individuals Who Rent".

I am Jeff Farber, Chief Operating Officer for L.A. Family Housing (LAFH). Founded in 1983, LAFH is a leading non-profit housing development corporation that provides housing and supportive services to homeless and low-income families and individuals throughout Los Angeles. Since its inception, LAFH has provided emergency shelter, transitional living centers, permanent affordable rental housing, homeownership opportunities and a wide range of supportive services to more than 60,000 individuals needing assistance in the San Fernando Valley, East Los Angeles and South Central Los Angeles. Our services are delivered at 29 facilities by a diverse and talented staff of 130 employees and over 1,000 community volunteers. Since 1987, 97% of the families completing agency programs have maintained permanent housing and stable income.

We operate in a region that is sorely lacking in affordable housing. Based on population growth, the Southern California Association of Governments calculates that the City of Los Angeles will need 60,280 new units in a seven and a half year period between 1998 and 2005 or about 8,000 new units a year. Of this number, 3,787 must be affordable to households earning less than 80 percent of median income. The allocation includes about 10,000 units of replacement housing.

L.A. Family Housing opposes the proposal to convert the Section 8 Housing Voucher Program into a block grant to the states. We consider Section 8 vouchers to be an essential component of the solutions to the affordable housing crisis in Los Angeles and across the nation – production, preservation and income subsidies.

Currently over 50,000 households receive Section 8 assistance through the Housing Authority of the City of Los Angeles and over 20,000 through the Housing Authority of the County of Los Angeles. Thousands of these households participate in tenant-based specialty programs including the Homeless Program, Veterans Affairs Supportive Housing, HOPE For Elderly Independence, and Welfare-To-Work Vouchers and project-based specialty programs including SRO Project-Based Assistance and Special Needs Project-Based Assistance.

Our organization participates in partnership with the Housing Authorities on many different Section 8 programs. Local leadership of the Housing Authorities has led to the creation of many innovative programs promoting affordable housing opportunities to those in need including the nationally recognized Homeless Section 8 Program. Through our partnership with the Housing Authorities of both the City and County of Los Angeles, we are able to place 100 to 150 homeless households annually in safe, decent and affordable housing. In this model, we refer Section 8 eligible households residing in our emergency shelter and transitional living programs to the respective housing authority for vouchers. We provide the clients with a variety of supportive services including tenant skills education, housing search assistance and case management. Through this program, we have assisted over 900 homeless households secure and maintain affordable housing in the last 10 years. It is a testament to the success of the existing Section 8 Housing Voucher Program that the families assisted by the various Section 8 programs are able to reside in stable living situations.

H.R. 1841, the Housing Assistance for Needy Families Act of 2003, attempts to address the administration of the voucher program. However, its approach is heavy-handed and fails to recognize the improvements made nationally to the program over the last several years. Nationwide, utilization of the program has increased to such an extent that HUD has intimated that it will not reallocate unused vouchers this year because there are not enough to justify implementing the reallocation process. Additionally, switching from one set of administrative rules known and used by all jurisdictions to at least 51 sets of rules creates incredible complications and difficulties. Furthermore, block granting the program adds an additional layer of bureaucracy. Finally, relying on local codes to determine housing quality creates the potential for rules to vary from locality to locality.

H.R. 1841 fails to guarantee that the funding of the housing voucher program will keep pace with housing costs. Currently, Congress adjusts voucher funding each year based on changes in actual costs, to ensure that housing agencies have sufficient funds to cover all vouchers that families are using. A block grant would eliminate this funding structure and allow Congress to simply pick a lump sum to appropriate each year without linking to the actual number of families using vouchers and adjustment for rising rents. In Los Angeles, almost 75% of families with annual incomes of $26,000 or less – 120,000 families – spend more than half of their incomes on rent. In the City of Los Angeles, the average two-bedroom apartment rents for about $1,100 per month. Using the HUD guideline that a family should not spend more than 30% of their income on housing costs, a household needs to earn over $21 per hour or $44,000 per year to afford the average two-bedroom apartment. Section 8 is a lifeline for many of our City's working poor – janitors, fast food works, nurses aides, security officers, cashiers – who otherwise would find themselves homeless without the voucher assistance. H.R. 1841 places these hardworking households at risk as it does not guarantee that voucher funding would meet the program's needs; in this scenario states would either have to contribute their own funds or scale back their programs in the following manner:

- Reducing the number of families that receive housing vouchers
- Shifting rent burdens to families participating in the program
- Limiting opportunities to use vouchers to escape high-poverty areas
- Shifting housing assistance from poor families to moderate-income families

The changes created by H.R. 1841 are not acceptable. Each of these changes would damage the program and move it from its mission of using a market-based approach that allows voucher participants to move to apartments in areas of their choice. The approach provided under the current program provides families the opportunity to move to safe, decent and affordable housing in lower-poverty neighborhoods with the outcome being reduced welfare dependence and a positive impact on employment, earnings, educational and health outcomes, and child well-being.

Congress could improve the administration and utilization of housing vouchers in a manner that is not detrimental to the well-being of families and does not disrupt the process of the existing program:

1. HUD already has the authority to reallocate unused vouchers from one administering agency to another. To add strength to this policy, Congress should consider making reallocation provisions that automatically move vouchers from communities that cannot use all their vouchers to those that can and to keep those vouchers in the same region to better accommodate people on various waiting lists in those regions.

2. Congress should consider reforms that will incentivize owners of rental property participate in the program. Areas to look at include the inspection process and payment systems to owners.

3. Congress should provide funds to assist housing voucher holders finds and access available housing in their areas. Areas to be supported by a fund would include housing search assistance, outreach to landlords and counseling focusing on tenant skill building. These services could be provided directly by local housing authorities or through subcontracts to qualified community based-organizations. This model is exemplified by our existing contracts for the Homeless Section 8, Family Self-Sufficiency and Deconcentration Programs with the Housing Authorities of the City and County of Los Angeles whereby we provide essential supportive and tenant services that assist Section 8 households with securing housing and gaining economic and social self-sufficiency.

The success of the housing voucher program depends on the availability of safe, decent and affordable housing. As referenced earlier in my comments, the housing needs of the City of Los Angeles are at a crisis level. In response, the City of Los Angeles has created a $100 million Housing Trust Fund to develop the affordable housing so sorely needed in this great city. The Section 8 Housing Voucher Program is a key piece of this historic effort by providing the rental subsidy essential to "balancing the funding equation" for developers of affordable housing. I urge the Committee to take the example of Los Angeles and take up H.R. 1102, the National Affordable Housing Trust Fund Act of 2003. This bill, with over 200 cosponsors and 4,200 endorsements by organizations and state and local elected officials across the country, is the national vehicle for developing the resources for housing production.

Again, thank you for inviting me here today to provide testimony.

Sincerely,

Jeff Farber
Chief Operating Officer

TESTIMONY OF MATTHEW O. FRANKLIN
DIRECTOR, HOUSING AND COMMUNITY DEVELOPMENT
STATE OF CALIFORNIA

Thank you Chairman Ney, Congresswomen Waters and other members of the Subcommittee for the opportunity to testify today on the Housing Choice Voucher Program and on the Housing Assistance for Needy Families Act of 2003 (H.R. 1841). My name is Matthew Franklin and I am Director of the California Department of Housing and Community Development. Prior to joining the Davis Administration, I also served on the federal level as General Deputy Assistant Secretary of Housing and Deputy Chief of Staff to the HUD Secretary during the Clinton-Gore Administration.

Under Governor Davis' leadership, the State of California is leading the nation in providing state funding and programs to meet its citizens' housing needs. During his first term in office, Governor Davis appropriated $500 million in state funds to support affordable housing development, an amount three times greater than the funding level appropriated by any other prior California governor. And last year, Governor Davis and the State Legislature put a record $2.1 billion housing bond on the statewide ballot – the largest housing bond in the nation and the largest in California history. The voters overwhelmingly approved the housing bond, Proposition 46, which will support the development of over 130,000 affordable housing units and create over 276,000 jobs for Californians over the life of the bond.

Housing bond funds are going to support a number of different programs administered by the Department of Housing and Community Development (HCD) including: $910 million for new multifamily housing development, $195 million for supportive housing, $195 million for farmworker housing, $190 million in downpayment assistance programs to support affordable homeownership, and $195 million to support development of emergency shelter housing for the homeless. In addition to these loan and grant programs, HCD administers the federal HOME Investment Partnerships Program, the Community Development Block Grant Program, the Emergency Shelter Grant Program and the Housing Opportunities for People with AIDs Program.

California also has one of the premier state housing finance agencies in the country, CalHFA. Since Governor Davis took office in 1998, CalHFA has increased its multifamily lending activities by more than 350 percent. Last year, CalHFA funded $163 million in lending to create over 2,200 affordable multifamily units and funded over $1 billion for affordable homeownership.

Finally, the state operates the most productive tax credit and tax exempt bond program in the country. California has coupled the Federal Low-Income Housing Tax Credit Program with a corresponding $70 million annual state tax credit program, again the largest in the country. For 2002, California awarded $64 million in federal tax credits, which will produce 5,500 units of affordable housing. Our tax exempt bond program awarded $1.3 billion to multifamily housing and created 13,900 affordable units.

FEDERAL HOUSING CHOICE VOUCHERS IN CALIFORNIA

In California, the Federal Housing Choice Voucher Program is a key component of our efforts to meet the housing needs of low-income families. The Housing Choice Voucher Program provides the important advantage of mobility, a critical attribute in the dynamic housing markets of California. By permitting recipients to choose where they live, the program empowers families to live in communities that best meet their needs.

Last year, the state received approximately 258,000 vouchers which were administered by a network of 104 public housing agencies (PHAs). The state HCD also administers vouchers in 12 rural counties. Voucher assistance generally serves extremely-low-income Californians, (those earning less than 30 percent of area median income) the neediest families in our State. Here are a few key facts about California voucher recipients:

- The average California household receiving vouchers has an income of less than $14,000.
- Fifty-five percent of voucher holders in the State are families with children.
- Forty-five percent of all families receiving vouchers are households headed by a single mother.
- Households headed by elderly or disabled persons represent 47 percent of all those served.

As you can see, in California, this program truly is serving our most vulnerable population – many of whom would be homeless without the assistance the federal voucher program provides.

HCV UTILIZATION RATES IN CALIFORNIA

Despite a very difficult housing market, characterized by rapidly rising rents and very low vacancy rates, California PHAs and the state HCD generally have been successful in ensuring a high utilization rate of federal Housing Choice Vouchers. Statewide the current utilization rate is 96 percent, exceeding the HUD requirement of 95 percent utilization. The state administered rural component has achieved an overall 95 percent utilization rate for the voucher program.

However, despite this general success, the State does face many challenges in maintaining a high voucher utilization rate. California is home to 18 of the 25 highest cost housing markets in the country. In many markets, rents have been rising at double digit rates for several years and vacancy rates are well below five percent. When combined with the low production of new housing units during the 1990s, these factors make it difficult for voucher holders in some markets to identify housing at the prescribed program rents.

The cities of Los Angeles and San Francisco are examples of high-cost areas with lower utilization rates: the utilization rate in Los Angeles is 83.5 percent, and San Francisco's is 89.8 percent. In part, this is due to tight rental markets and rapid increases in rent, which have been seen in many metropolitan areas. Even when voucher holders can find affordable rental housing, many landlords choose not to participate because they have non-voucher bearing tenants knocking down their doors.

THE NEED FOR HOUSING ASSISTANCE IN CALIFORNIA FAR OUTSTRIPS SUPPLY OF HOUSING CHOICE VOUCHERS

The single biggest problem with the HCV Program in California is woefully inadequate program funding. According to the 2000 Census, only 17 percent of extremely low income households are actually being assisted by the program. With such a large segment of the eligible households being unserved, the need for rental assistance in this State far outstrips the current supply of Housing Choice Vouchers.

HOUSING ASSISTANCE FOR NEEDY FAMILIES ACT OF 2003

The Davis Administration is very concerned that the Housing Assistance for Needy Families Act of 2003 (HANF) would eliminate the existing federal commitment to fully fund authorized vouchers and accommodate future renewal costs at the real rate of growth in rents. In my view, this is the single most problematic feature of the proposed legislation. As you know, under the current system, Congress is committed to renewing all existing vouchers with an annual adjustment in funding that generally accounts for annual increases in program costs and rents. This system ensures that the number of families served by the program does not decrease over time and it is designed to empower program participants by paying a fair market rent for housing.

HANF would substitute this system of safeguards for one that would simply block grant a set amount of funds to participating states, with no specific commitment for renewal funding or annual rent increases. In fact, the legislation is silent on the formula to be used for annual increases in the amount granted to participating states.

In the past, Congress has utilized the Consumer Price Index (CPI) or other like indexes of generalized annual cost increases to facilitate annual adjustments in funding for other similar state block grant programs. Assuming that the CPI would be used to adjust funding, the annual increases in the Federal Housing Choice Voucher Program would be a disaster for the people of California. According to the Center for Budget Policy and Priorities, over the last several years rents have increased at a rate equal to more than twice CPI. In California, where housing costs are among the highest in the nation, the gap between annual rent increases and CPI is likely to be even greater. HUD's own annual adjustment factors used for project based Section 8 indicate annual increases 3 to 4 times the CPI in the past year.

In the event HANF was authorized and future increases in HCV program funding were tied to CPI, the number of Californians served by the program would steadily decline over time. The only way to offset this erosion in program funding would be to target the program to higher income families or to require participating families to pay a larger share of their income for rent – actions the Davis Administration does not support.

The program funding mechanism prescribed by HANF also would appear to preclude the possibility of future incremental voucher funding – something that is desperately needed in California. As previously indicated, the Housing Choice Voucher Program currently serves only 17 percent of extremely low income households in the State. With such a large unmet need, California's need for new incremental vouchers requires an increase in funding, not a cap on program expenses. As recently as the 2001 budget year, Congress approved funding for thousands of new, incremental vouchers. In fact, during the second term of the Clinton-Gore Administration, HUD won approval for more than 150,000 new incremental housing vouchers. HANF would appear to kill forever the momentum created at that time for sorely needed additional funding for the Housing Choice Voucher Program.

As the lead state official responsible for advising Governor Davis on housing policy, I cannot support federal legislation that I believe is doomed to fail the residents of California. By wiping out the Congressional commitment to fully fund voucher renewals and account for real program costs and rent, HANF would, in my view, seriously undermine the federal Housing Choice Voucher Program. It would eliminate one of the Program's most valuable features – its focus on serving extremely low-income families. And it would create unacceptable hardship on participating families by substantially increasing their rent burden.

There are many ways to improve the current Program without sacrificing assured funding, and without taking any extreme steps. I advocate the following recommendations for improvement, which were developed by Margery Turner, Director of the Urban Institutes, Metropolitan Housing and Communities Center.

- Mobility counseling and assistance programs, which can help voucher recipients understand the best areas in which to search for housing, identify housing opportunities, and learn how to negotiate effectively with landlords. This kind of assistance has been shown to significantly improve the success rates for voucher recipients.

- Aggressive landlord outreach, service and incentives programs, wherein PHAs continuously recruit new landlords to participate in the program. In these programs, PHAs listen to landlord concerns about how the program operates, address red tape and other disincentives to landlord participation, and, in some cases, offer financial incentives to landlords to accept voucher recipients.

- Regional collaboration and/or regional administration of the voucher program can potentially help address the administrative barriers to portability across jurisdictions, and make the program easier for both landlords and participants. Regional coordination can strengthen voucher program performance.

Thank you for the opportunity to brief the Subcommittee on the impact of HANF in California.

Testimony of
Larry Gross
Executive Director
Coalition for Economic Survival (CES)
Los Angeles, California

Presented Before
Committee on Financial Services
Subcommittee on Housing and Community Opportunity
United States Housing of Representatives
Held in Los Angeles, California
July 1, 2003

"The Section 8 Housing Assistance Program: Promoting Decent Affordable Housing for Families & Individuals Who Rent"
Testimony of Larry Gross, Executive Director
Coalition for Economic Survival, Los Angeles, California

Chairman Ney, Ranking Member Waters and other distinguished members of the Subcommittee on Housing and Community Opportunity, thank you for the opportunity to offer testimony today on the Section 8 Housing Voucher Program and H.R. 1841.

I am Larry Gross, Executive Director of the Coalition for Economic Survival (CES). CES is a 30 year old grass roots tenants' rights organization assisting tenants, including project-based Section 8 and Housing Choice Voucher renters, throughout the Southern California area. CES also has been overseeing a HUD Outreach and Training Grant to provide assistance to tenants living in expiring project-based Section 8 housing and buildings subject to the HUD Mark-to-Market program for over the last four years.

I am here today to express great concern about the proposal that would block grant to states the Section 8 Housing Voucher Program. Thus, we strongly oppose this proposal because we believe it will have a disastrous impact on the ability to provide affordable housing to the nation's low income seniors and families.

Section 8 is the cornerstone of federal affordable housing policy, providing vouchers to nearly 2 million households. While, certainly as with most government programs, there is room for improvement, the voucher program is highly effective in providing needed housing assistance. This was clearly stated by the bipartisan, Congressionally-chartered Millennial Housing Commission, which strongly endorsed the voucher program as being "flexible, cost-effective and successful in its mission."

One of the main problems of Section 8 is the inadequate Congressional funding which results in long lists where tenants have to wait for years to receive vouchers, and then, once finally obtaining a voucher, tenants face losing them due to their inability to find a landlord who is willing to accept the voucher within the required time period allowed. Only one of three eligible households receives Section 8.

When the Housing Authority of the City of Los Angeles opened up its Section 8 rental assistance waiting list for the first time in years in late

1998 for a two week period, over 150,000 families signed up -- more than 10% of the City's households.

Block granting will make this situation worse. By eliminating the federal commitment to maintain funding at a level sufficient to meet the need, it would make rental voucher revenues less reliable, which would likely further deter landlords from accepting vouchers. Even the National Association of Realtors and other apartment owners' groups have warned that block granting vouchers would "have a chilling impact upon market participation in the [voucher] program."

The greater Los Angeles area already is facing one of the nation's most severe affordable housing crises. We can ill afford to take action, which will further increase this crisis.

Overall, approximately 90,000 families and individuals receive affordable housing assistance in the City of Los Angeles, a greatly insufficient number given the need.

There are nearly 784,000 renter households, which represent 61% of the city's population. L.A. is a city of renters.

Over 177,000 households, 23% of all renter households in L.A., pay over 50% of their income to rent.

The 1994 Los Angeles Rental Housing Study identified two structural problems in Los Angeles' housing market. They are the reduced effective demand (insufficient income to pay market rents) and a mismatch of the average household size and the units available at affordable rents (i.e. large families can only afford the rents for efficiency units or one bedroom apartments). This situation persists in 2003.

The block grant proposal would further impact this situation and would result in fewer Section 8 vouchers when many more are needed.

Block granting would eliminate the current funding structure where Congress adjusts funding each year based on changes in actual costs to ensure that housing agencies have sufficient funds to cover all vouchers that families are using. Under the block grant proposal Congress could simply decide on a funding figure which has no correlation to the actual number of families using vouchers, as well as not providing adjustments for increases in rents. This approach would lead to the eroding of Section 8 voucher funding over time.

States would also be allowed to remove many of the provisions that protect the lowest income renters. States could receive waivers to provide only 55% vouchers to the poorest families, instead of the current 75% figure.

Rent vouchers allow low income people to achieve a degree of less poverty and the ability to live in less segregated communities. Block granting would do the opposite. States could save money by reducing the total value of the voucher. That would make it more difficult for families to use vouchers to move into neighborhoods with more opportunities, jobs, better schools and less crime, because the rents are much higher. The block grant proposal would also give states broad power to direct vouchers to specific developments and prohibit voucher use to certain neighborhoods. Thus, we could likely see the creation of "voucher ghettos and barrios."

In addition, under a block grant, states would be able to cut costs by requiring larger rental payments from voucher holders. Thus, households could end up paying far more than 30% of their income to rent, a federal affordable housing standard for the last 30 years.

In the City of Los Angeles, we have been successful in a number of initiatives to do our part in addressing affordable housing needs.

The City recently approved the creation of a $100 million Housing Trust Fund to build and preserve affordable housing. It adopted a Preservation Program Ordinance, which addresses the problem of prepayments of HUD insured mortgages and the opt-outs of project-based Section 8 contracts. The City also enacted an amendment to its Rent Stabilization Ordinance to help dissuade owners from terminating Section 8 vouchers, of which 6,000 were terminated in the prior year due to the area's strong housing market.

These significant local incentives assume a certain level of support and commitment of funding on the federal level. These local efforts demonstrate a willingness to take responsibility to participate as a partner with the federal government. The block granting, which would result in reduced federal funding, would critically undermine the success of this partnership. It would significantly diminish the effectiveness of Los Angeles' effort to take a proactive approach to confronting the affordable housing needs of its residents.

In addition, Los Angeles affordable housing advocates, tenants' leaders and tenant organizations have had an extremely close and effective working relationship with the Section 8 Division of the City of Los Angeles Housing Authority. Through this relationship, we have been able to identify problems, develop effective approaches to dealing with those problems and have implemented new programs to enable tenants to receive the benefits of Section 8 vouchers.

This working relationship would likely be placed at risk due to block granting. Under the block grant proposal, state administrative costs would be limited to 10 percent of the state's total funding. For many states, this would be a lower amount then local housing agencies currently receive to administer the program. Yet, states would take on added administrative responsibilities.

A deep concern to us is the impact on tenants living in housing where a prepayment of a HUD insured mortgage or an opt-out of a project-based Section 8 contract has occurred.

Los Angeles has the largest stock of privately owned HUD subsidized housing of any city in California or the nation. There are 24,500 units, which are at risk of losing their affordability restrictions, due to owners' decisions to prepay their FHA-insured mortgages or to opt-out of the Section 8 program. L.A. has already experienced one of the highest rates of prepayments and opt-outs. Approximately 3,000 homes have already been lost. The average income of residents in these properties is $9,000, below the poverty level, with monthly rents ranging from $50 to $400. It will be extremely difficult for poor families, senior citizens and disabled City residents to find comparable, decent, safe apartments in Los Angeles.

Currently, tenants living in complexes where an opt-out or prepayment has occurred, for the most part, are protected with Section 8 enhanced vouchers. The enhanced voucher ensures that tenants will not face a rent increase and will not be displaced. An enhanced voucher tenant has the right to remain in the unit as long as Congress provides funding and owners are mandated to accept the enhanced vouchers.

Each year, funds are appropriated for HUD to renew previously issued enhanced vouchers and to fund new vouchers issued during the course of the upcoming fiscal year as project-based subsidies end. H.R. 1841 would have the effect of terminating existing requirements in Section 8 for providing enhanced vouchers after FY 2004. Additional appropriations are authorized to maintain or grandfather tenants "previously receiving such assistance in that state," but states would not be required to issue new enhanced vouchers. States would have the flexibility to continue the enhanced voucher protection, but there is no assurance they would do so. A state might then only provide a regular Section 8 voucher to tenants as a result of a prepayment or opt-out, instead of the enhanced voucher. This may then result in the tenant having to pay higher rent and be forced to move due to inability to pay. Also, owners would be under no obligation to accept the voucher, thus resulting in the tenant's displacement.

In conclusion, we strongly urge that the block granting of the Section 8 Housing Choice Vouchers be firmly rejected. Its approval would only bring increased hardship to the nation's low income households who are in dire need of obtaining secure affordable housing.

Thank you, again, for giving me this opportunity to provide you with the views of the Coalition for Economic Survival.

Testimony of Carlos Jackson, Executive Director, Los Angeles County Community Development Commission and Housing Authority of the County of Los Angeles, before the House Financial Services Subcommittee on Housing and Community Opportunity

July 1, 2003

Good morning, Chairman Nay and Ranking Member Waters.

I testified before the Committee yesterday on the Community Development Block Grant program, which is administered by the Community Development Commission. I want to thank you for the opportunity to testify before you today to discuss the Section 8 Housing Choice Voucher program.

My testimony will address: the proposed Housing Assistance for Needy Families (HANF) legislation to block-grant the Section 8 program to states; recent legislative proposals to cap and restrict Section 8 administrative fees; our successes in administering the program in Los Angeles County; and, some recommendations for improving program flexibility and reducing administrative costs.

The Housing Authority of the County of Los Angeles (HACoLA) is the fifth largest local administrator of Section 8 rental assistance in the country. On behalf of the County of Los Angeles, HACoLA:

- Administers over 20,000 Section 8 vouchers;
- Manages vouchers on behalf of the unincorporated areas of Los Angeles and 68 of the County's 88 cities;
- Works in partnership with over 10,000 property owners; and

- In addition, manages over 3,600 units of conventional and non-conventional public housing, serving approximately 6,000 residents at 73 housing sites throughout Los Angeles County.

As administrator of the County's Section 8 program, I am deeply concerned with the Housing Assistance to Needy Families (HANF) proposal to block-grant the Section 8 Housing Choice Voucher program to states. I have learned from my experience as an administrator of housing and community development programs that decisions impacting housing and community development are made and implemented at the local level, not by faraway state governments. The Los Angeles County Board of Supervisors, whose members are also the Governing Body of HACoLA, have recently joined other elected officials and associations in opposing the HANF block grant proposal. There has yet to be evidence presented that local Section 8 administrators are incapable of administering the program as evidenced by a 95 percent national lease-up rate. Nor has there been evidence presented that states are capable of doing a better job as currently 40 percent of state administered housing authorities are rated as 'troubled' by HUD.

In Southern California, we are faced with a real estate market that is distinguished by high rents and low vacancy rates. The average monthly rent for a two-bedroom unit is $1,300, the vacancy rate is a low four percent, and only 36 percent of families in Los Angeles County are able to afford the median price of a home which has increased to $313,000. However, we have been able to achieve a 100 percent lease-up rate given these extraneous factors. We are serving Los Angeles' neediest residents with 73 percent of our Section 8 participants earning at or below 30 percent of the Area Median Income (AMI) and 24 percent earning between 30 to 50 percent of AMI.

Housing Assistance for Needy Families (HANF)

No Need to Restructure

As of today, HUD has not been able to fully explain why they support block-granting the Section 8 program to states, and they have determined that states have the capacity to administer the program. Also, HUD has not provided information on what the real start-up and on-going costs would be. Therefore, one can only conclude that the intent of HANF is to either strategically gut the program or to relieve the federal government of its role in providing affordable housing.

I am perplexed by the proposal to block-grant the Section 8 program to states when the program is considered by many to be highly successful in serving our neediest families, including the elderly and disabled. Nationally, utilization rates have increased six percent over the past year, from 89 percent to now over 95 percent. Only eight percent of local PHAs are rated as 'troubled', the rest being rated as 'standard' or 'high' under HUD's Section Eight Management Assessment Program (SEMAP) rating system. It doesn't make sense to completely revamp the program when only eight percent of local public housing authorities are not performing up to standards. As a result, the many well performing local public housing authorities would be penalized because of the few that are below standard.

Program Should Be Locally Administered

HANF would turn over the administration of the Section 8 program from local governments to states, resulting in severe repercussions for Los Angeles County and its low-income families. In Los Angeles County, the Section 8 program is by far the largest provider of affordable housing for low-income families. Together, the County and City of Los Angeles' Section 8 programs represent over 22 percent of the State of California's 301,398 vouchers. Collectively, California's public housing authorities administer 14.4 percent of the nation's vouchers.

Section 8 is a market driven program that requires in-depth knowledge of local housing conditions. In California, we have eight major housing markets with populations of at least 350,000 people. Local agencies are in the best position to oversee the Section 8 program because they understand their residents' housing needs and the local rental market, they are familiar with their community and neighborhoods, and they have long-standing partnerships with local property owners. To see the strength of local administration, one only has to look at the significant strides that cities and counties throughout California have made in fully utilizing their vouchers by working with their local communities. In Los Angeles, the County and City Housing Authorities' lease-up rates of over 99 percent demonstrate our successes in administering the program.

During the 1994 Northridge earthquake that devastated the Los Angeles region, it was local governments that managed the crisis of housing those displaced by the earthquake. It was the Federal government, and not the State, that provided the financial resources to local governments to respond accordingly and in a timely manner. Housing is a local issue as local governments and entities are knowledgeable of their areas' housing market conditions and the needs of their residents. I strongly believe that state governments cannot gain the knowledge and experience to address local housing needs.

State Administration: Unnecessary Layer of Government

In a time of streamlining, the block-grant proposal would add an additional layer of bureaucracy by transferring the Section 8 program to states. There has been no evidence presented to suggest that state administration would lead to a more efficient and effective program. In fact, it is interesting to note that 40 percent of state administered housing authorities, are rated as 'troubled' by HUD's own scoring system (SEMAP). Conversely, only eight percent of locally administered Section 8 programs are similarly rated. In California, the HANF proposal would transfer the Section 8 program from housing authorities such as ours that administer over 20,000 vouchers and maintain a 100 percent lease-up rate to California's Housing Authority, which administers only 723 vouchers, and are only at an 82 percent lease-up rate. This just doesn't make sense. Our question continues to go unanswered by HUD: Why punish the well performing agencies?

In California, the proposal would transfer the program to a State facing a $38 billion deficit, the largest deficit currently facing any state in the nation. The proposal would transfer money from local housing agencies that are vested in these programs to a State facing a major budget crisis. Also, property owners that have confidence in and familiarity with these local agencies would be forced to work with a faraway state agency. Additionally, during these uncertain times, it is not known if housing will be a priority for the State. This is evidenced by Governor Gray Davis' recent proposal to zero out the budgets of two housing programs and backfill them with $39 million dollars from monies approved by the voters in November 2002 to create additional housing opportunities in the State. This is on top of the $35 million in cuts to housing programs the Governor made last fiscal year.

Furthermore, it is unlikely that states that are strapped and overburdened would overcome administrative, operational, and automation hurdles of a program that has been primarily locally administered for nearly 30 years. It has been our experience that it takes several years to accomplish the administrative and technological goals set forth by HUD. This is confirmed by the fact that HUD, because of technological difficulties, has not been able to extract the necessary data from their Public Indian Housing Information Center (PIC) for two of SEMAP's 14 rating areas. It is unrealistic to think that within one-year, if ever, states can put together the administrative structure to run a Section 8 program effectively. We are aware that in the best of times this would be a major challenge. So, in the worst of times, it is the families that will suffer.

Lastly, there are no assurances to prevent the raiding of Section 8 program funds by states to offset other housing needs. In addition, since the first introduction of the HANF proposal over four months ago, only a few states have indicated a willingness to undertake this new program. In contrast, local governments have come out strongly opposing the proposal on the grounds that it will jeopardize services.

Funding Uncertainties Under HANF

The current Section 8 program is funded based on actual housing costs while the HANF proposal uses housing costs as only one of the several measures for distributing funds to states. In the last five years, rents have increased nationally, on average, by 25 percent, while the Consumer Price Index has risen by only 12 percent. A recent report by the National Association of Housing and Redevelopment Officials (NAHRO) suggests that if the differences in these two figures hold true for the future, this State would experience, over a five-year period of time, a 29 percent shortfall in funding for the Section 8 program amounting to $737 million. The State would have to contribute $737 million of its own funds to sustain the current level of service under the program.

HANF proposes to fund states at a projected level of 96 percent of the current budgeted voucher funding level, resulting in over 80,000 low-income families nationally that would not be able to receive assistance because of the lack of full funding. HACoLA's waiting list for the Section 8 program currently has over 120,000 families on it and our waiting list for our Public Housing program has nearly 72,000 families on it, including 15,000 from our jurisdiction and 57,000 from outside our jurisdiction. Under HANF, it seems less likely that families on our Section 8 waiting list would be served. Additionally, if the State of California were to receive 96 percent of voucher funding, there are no provisions in the proposal to ensure that Los Angeles County will receive funding to support the families currently being served under our program as we are at 100 percent lease-up. If the State of California only provided Los Angeles County and City Housing Authorities with funding for 96 percent of our allocation, approximately 2,600 families currently being served under our programs would lose their housing assistance.

HANF Would Divert Assistance From the Neediest

Under the HANF proposal, states would be asked to make every effort to provide assistance to the same number of families currently receiving assistance. With rising rental costs that outpace inflation and funding capped, states would have to operate within these constraints by either:

- Increasing a family's portion of rent to cover lower housing assistance payments;
- Serving less of our neediest families to stay within the funding cap;
- Lowering the amount of rent that a voucher can cover, limiting access to available units and geographic areas where vouchers can be used; or
- Subsidizing the program with state funds.

PHAs are Accountable

Public housing authorities are accountable for their activities. PHAs are scored every year on the administration of their Section 8 program under the SEMAP rating system. Agencies that are rated as 'troubled' by the SEMAP system have corrective action plans and HUD currently has the authority to transfer program administration for 'troubled' housing agencies to another administering agency. Additionally, HUD has the power to reallocate unused vouchers from agencies that have not been using them to agencies that have been successful in using them.

Public housing authorities are not only accountable to HUD, but are also accountable to a local Governing Board and numerous resident and community advisory boards. In Los Angeles County, the members of the Governing Board are also the members of the Los Angeles County Board of Supervisors. In addition to the Governing Board, HACoLA also has an advisory Housing Commission, comprised of private citizens appointed by the Board of Supervisors, Public Housing residents, and Section 8 participants. In addition, we have Resident Advisory Boards and Resident Councils that allow residents and participants the opportunity to comment on our Section 8 and Public Housing programs.

Administrative Fee Proposals

Section 8 Administrative Fee Cap

There was language introduced last year in the VA/HUD/IA Appropriations Bill, H.R. 5605, that would have limited the Section 8 administrative fees to no more than 10 percent of the rental subsidy paid. Fortunately, this section of the bill did not pass, however the HANF proposal also caps administrative fees at 10 percent. HUD's current formula for calculating Section 8 administrative fees results in HACoLA receiving approximately 12.5 percent of the rental subsidy paid to support current program operations. Limiting the administrative fees to no more than 10 percent would result in an approximate 18 percent reduction in current level funding to support our program operations. Administrative fees are used not only to support the costs of administering the program, but also to: provide housing counseling services to assist voucher holders in successfully leasing up; offer family self-sufficiency services; conduct fraud investigations; and have helped support the cost of administering the Shelter Plus Care and HOPWA programs. Without these administrative fees, we would not have been able to conduct the lease-up campaign that resulted in a 12 percent increase in our lease-up rates.

The HANF proposal would not only reduce this amount to 10 percent of the subsidy amount but that would be the total amount allowed for both states and local administrators. NAHRO recently conducted a study on the 10 percent administrative fee cap. The results of the study reveal that the HANF proposal will result in an unfunded mandate on states. NAHRO estimates that HANF will reduce fees by an average of 13 percent across the country compared with current fees. As a result, states may have to either expend resources from other programs to sustain an adequate level of service or they may have to reduce the number of low-income families that are served.

Some changes that HUD can implement to help reduce the cost of administering the Section 8 program are:

- Eliminating unfunded mandates such as criminal background checks;
- Simplifying restrictive regulations such as the 50058 form that are not necessary to the core operation of the program;
- Changing all eligibility recertifications and housing quality inspections to once every two years instead of annually;
- Changing third party verification requirements to periodic sampling;
- Mandating sharing of data between agencies for income and background screening; and
- Simplifying regulations governing eligibility calculations.

Restricting Use of Section 8 Administrative Fees

There was also a proposal to include language in the FY 2003 Omnibus Bill (H.J. Res 2) that would place restrictions on the use of Section 8 administrative fees to only be used for activities related to the Section 8 program. As of today, we are uncertain if this proposal was included in the Omnibus Bill as HUD has still not issued a notice on bill. We are extremely concerned with this restriction since these funds are currently used to support operating costs in our public housing program. As you know, operating funds for public housing have been drastically reduced in recent years. For example, in FY 2002, the Public Housing Drug Elimination Program (PHDEP) was eliminated which allocated funding for public housing authorities to provide services to residents with the ultimate goal of reducing drug-related crime in and around public housing developments. With the PHDEP funding, we were able to reduce crime in our public housing developments by 68 percent over a 10-year period.

Additionally, HUD is only funding public housing authorities at approximately 90 percent of their eligible subsidy requirements. As such, Section 8 funds are needed to help operate our Public Housing developments. Lastly, Section 8 administrative fees are needed to bear the costs of unfunded mandates such as law enforcement contracts and the Family Self-Sufficiency program that serves both Section 8 and Public Housing residents.

An Example of Success

Our high lease-up rate of 100 percent demonstrates our ability to effectively administer the Section 8 program despite Los Angeles' extremely high rent market. We were able to increase our rate by initiating a lease-up campaign beginning in May 2000 that involved providing extensive outreach to property owners and streamlining our administrative processes. We conducted meetings and focus groups with the property owners. It was time for us to listen! The property owners spoke to us frankly about their experience with the Section 8 program and provided suggestions for improvements. For example, during these meetings, it became apparent to us that units remaining vacant over a period of time was detrimental to property owners. As a result, we streamlined our processes to shorten the time between the property owners agreement to participate in the Section 8 program and the signing of the contract between the parties. We also recognized that streamlining went both ways. We realized that a very small group of property owners were also responsible for taking too much time in signing the contracts. We were able to recognize this and improve this deficiency.

Between May 2000 and July 2001, we were able to increase our lease-up rate from 84 percent to 96 percent. We were able to do this because of the aforementioned lease-up efforts and also an increase in the Fair Market Rents (FMR) during that time. Still, however, roughly 56 percent of those families that were issued a voucher were unable to find housing because of the high rent market in Los Angeles.

Need for Improvements

The Section 8 program, like all programs, can be improved to better serve low-income families by reducing administrative burdens and providing incentives to increase participation by property owners. It has been our experience that some of the most significant barriers include:

- Lack of affordable housing;
- Lack of additional vouchers to address the need for the program as evidenced by the 120,000 families on our Section 8 waiting list;
- Lack of funds for security deposits and other move-in costs incurred by the families;
- Fair Market Rents (FMR) being set at the 40^{th} percentile rather than the median percentile of 50^{th}; and
- FMRs that don't accurately reflect market rental costs for all areas.

The following changes can be implemented now to improve the Section 8 program. They include, but are not limited to:

- Providing additional flexibility to public housing authorities to set payment standards up to 120 percent without HUD approval;
- Increasing the FMR from the 40^{th} to 50^{th} percentile;
- Removing the 40 percent cap on the tenant's portion of their rent for new families and new moves;
- Allowing recertifications for eligibility and housing quality inspections to be done every two years rather than every year; and
- Simplifying the 50058 form and other reporting requirements.

Conclusion

HUD has the power to correct some of the inefficiencies of the Section 8 program without having to revamp a nationally successful program. HUD can give local public housing authorities the same flexibility they're willing to give the states. The aforementioned modifications to the program would effectively counter inherent inefficiencies and allow public housing authorities in California and across the country the flexibility to more quickly address local needs.

Testimony of John Jackson, Head Organizer Los Angeles ACORN
"Section 8 Housing Assistance Program: Promoting Decent Affordable Housing for Families and Individuals Who Rent"
July 1, 2003

Good morning. My name is John Jackson and I am the Head Organizer for Los Angeles ACORN. I would like to thank Subcommittee Chairman Bob Ney for holding these field hearings and would like to also send my sincere thanks to Congresswoman Maxine Waters for championing many of the causes that are dear to ACORN. ACORN, the Association of Community Organizations for Reform Now, is the nation's largest community organization of low- and moderate-income families, with over 150,000 member families organized into 700 neighborhood chapters in 51 cities across the country. Since 1970 ACORN has taken action and won victories on issues of concern to our members. Our priorities include: better housing for first time homebuyers and tenants, living wages for low-wage workers, more investment in our communities from banks and governments, and better public schools. We achieve these goals by building community organizations that have the power to win changes -- through direct action, negotiation, legislation, and voter participation. Our Los Angeles chapter consists of 20 organizers and 5500 member families. Our office is located at 3655 South Grand Avenue, Suite 250.

I'm here today to express ACORN's opposition to restructuring the Section 8 voucher program into a state block grant. First let me clearly state ACORN adamantly believes that changing the voucher program from its current funding structure based on actual costs for the number of vouchers used to a state-administered block grant is likely to result in reduced program funding. Reduced funding is the last thing the Section 8 program needs right now. At a time where we struggle for affordable housing for the poor we need to increase funding not diminish resources. With less funding, few federal requirements and pressures to spread reduced funding across more households, states are likely to reduce the value of voucher subsidies, shift costs to tenants and assist higher income families. Weakened federal protections for program participants will likely mean that a reduced number of households will have to pay a higher share of their income to rent lower quality housing in less desirable neighborhoods, with their housing assistance potentially subject to time limits and employment requirements.

In addition, vouchers are likely to become less useful as a tool to promote housing development or homeownership, as lenders are likely to become more wary of relying on voucher funding. One concern echoed by several organizations is whether states would be tempted to redirect voucher block grant funds to other uses, given the fiscal crises most states are facing currently. The state of California alone is on the brink of fiscal disaster and as we speak the state hurries to solve a $38 billion deficit. The shifting of block grant funds to other programs is almost inevitable in a state as financially strapped as California. Furthermore, the effects of state politics could allow for geographic discrimination in the distribution of vouchers. With the short end of the stick so to speak given to ACORN members and other low-income citizens.

ACORN believes the voucher program reflects a national objective to provide safe, affordable housing and that a federal agency should be responsible for fulfilling a national objective. ACORN expects to fight against any proposal to block grant the Section 8 voucher program. A change of such magnitude would hurt many of our members the most.

I welcome the opportunity to discuss my personal experiences and further expand on ACORN's position that turning the Section 8 program into a block grant is wrong and detrimental to the low-income citizens of the state of California.

Testimony of Beverly J. Martin
Owner/Landlord Housing Units City of Los Angeles
before the
Subcommittee on Housing and Community Opportunity
House Committee on Financial Services
July 1, 2003

During the last three years I have been an owner/landlord in the Los Angeles area. This experience is relatively new to me, after retiring from the Los Angeles Unified School District as a former school principal for ten (10) years and as Asst. Superintendent my final seven (7) years. This self-chosen investment has been both invigorating and gratifying.

In a brief period, I have owned a triplex, a 7-unit building and a 29-unit building. All are located in south Los Angeles area with the major concentration of my time being devoted to the 29-unit complex. Of the 29 units, 24 are occupied by Section 8 voucher tenants. I appear before you today as a strong advocate and staunch supporter of the current structure and operation of the present Section 8 voucher program.

It is my understanding that legislation via block grants to states is being considered as an avenue for dissemination of funds for housing. I view this as a deterrent and another unnecessary layer of bureaucracy. The concept would, indeed, bring a negative impact and could prove to be an impediment in providing assistance to those in greatest need of affordable housing.

As a resident of the state of California for 41 years, the state financial crisis has peaked in this state. This is a most inappropriate time to consider shifting these major housing responsibilities to the state. It would be devastating, and would compound the present financial situation in California. Above all, the recipients, those to whom this service is intended, would suffer.

The current local administration of the Section 8 voucher program, though not flawless, is functioning extremely well in this city, and the cliché of "If it ain't broke, don't fix it," is an appropriate statement at this time.

Last week as I read an article in a journal, a thought remained with me. In conclusion, allow me to share that thought with you, and I quote:

> "Serious attention must be given to the **awesome** **task** of helping those who live below the poverty level, if we, as Americans expect to maintain our image as a democracy."

This thought has great merit. I am available to respond to questions and to convey my personal views and opinions regarding the current local administration of the Section 8 voucher program in the Los Angeles area.
Thank you, Mr. Chairman.

Testimony of Chanda C. Peters
Eligibility Interviewer of the Housing Authority of the City of Los Angeles
before the
Subcommittee on Housing and Community Opportunity
House Committee on Financial Services
July 1, 2003

Good Morning Committee Members,

Thank you for the opportunity to present to you my personal testimony on this very important issue – Section 8 Housing Assistance Program and the Family Self-Sufficiency Program. These two programs have not only changed my life but also my children's lives dramatically for the better. My grandmother moved into the Eastchester Gardens Housing developments located in the Bronx, New York in the early 1950's. My mother grew up there and I also grew up there.

Due to my mother's illness I (an only child) was raised on welfare, so life was not easy for us. After an extremely abusive marriage I left New York with my 3 daughters and moved to Los Angeles where I started my life all over again. With very little money, no job and having to start all over I *had* to get on public assistance (first welfare, and then Section 8) because I simply could not afford to pay rent, utilities, and the high cost childcare.

Then one day I received an invitation to participate in the Gain program (Greater Avenues for Independence) where they pay for your school tuition, books, supplies, travel, and most importantly your **childcare expenses**. I immediately signed up and registered at the Los Angeles Trade Technical College where I took computer classes, and office procedures. Shortly after I received another invitation to participate in the Family Self-Sufficiency program where they assist you with career goals, such as providing you with educational development, technical, trade and vocational training, job counseling as well as other services to help you to become self-sufficient and become a homeowner! Again I signed up!

The FSS program especially changed my life for the better because through their partnerships with other agencies I was able to utilize their facilities for studying and had access to their computers to do my homework assignments. The job counseling was **extremely** valuable and motivated me to reach my goals. To this day, I still use those skills for interviews for promotions that I seek.

After completing Gain, I worked for temp agencies all over downtown Los Angeles, until I was hired permanently, and I have been employed ever since!

I can't begin to express to you how important these programs and others that help, encourage, inspire and support needy families to live in decent housing and get out of a situation that to many may seem hopeless.

This is how my life has been since:

- **Utilized the tools and services needed to upgrade my computer and office skills preparing myself for the job market**

- **Completed 2 year Gain program and am now gainfully employed full-time since 1997, no longer on public assistance of any kind**

- **Completed Family Self-Sufficiency program receiving over $14,000 - I am now a proud homeowner of a beautiful 2 bedroom 2 ½ bath townhouse located in Inglewood, CA**

- **I have two daughters attending UCLA (studying law) and UC Riverside (studying veterinary medicine), my youngest attends University High – they all have high self-esteem because of my example – where I always tell them to reach for their dreams**

- **I am now employed with the Housing Authority of the City of Los Angeles as an Eligibility Interviewer helping other families with housing assistance**

- **My mother no longer lives in Eastchester Gardens, I have moved her here closer to her loved ones breaking a family cycle of public assistance**

Every single day when I go to work, and when I return home, I'm so very thankful for those programs. I truly enjoy my job and I especially enjoy helping others. It is my hope and prayer that these programs continue to assist other families to becoming self-sufficient.

Thank you for allowing me to give you my testimony and I especially thank the Housing Authority of the City of Los Angeles.

Congressional Testimony Of
Ruth Schwartz, Executive Director
Shelter Partnership, Inc.
On the Federal Housing Choice Voucher Program:
The Los Angeles Experience for Very Low Income Households

Committee on Financial Services,
Subcommittee on Housing and Community Opportunity
United States House of Representatives
July 1, 2003
10:00 AM
California Science Center
Los Angeles, California

Good Morning, Chairman Ney, Ranking Member Waters and Members of the Subcommittee,

My name is Ruth Schwartz, Founder and Executive Director of Shelter Partnership, Inc. a nonprofit organization established in 1985 to assist in the development of housing and resources for individuals and families who are homeless or at-risk of homelessness in Los Angeles County. According to our estimates, there are as many as 84,000 homeless persons nightly in the County of Los Angeles with approximately 40,000 located in the City of Los Angeles.

Based on my experience, without a doubt, the most successful program that has been developed for homeless families and individuals in Los Angeles County has been the Section 8 Homeless Assistance Program. Through local ingenuity, coordination, strong involvement of community-based agencies, and systems integration, the Section 8 program has been a major change agent in the lives of thousands of homeless individuals and families, as well as people at imminent risk of homelessness.

In my testimony today, I would like to point out the great success of locally administered Section 8 programs. With all due respect to the State Department of Housing and Community Development, the success of the program would be lost if the program were to be administered by the State of California.

I will also highlight the Section 8 Homeless Assistance Program overall, as well as specialized programs for homeless persons with a chronic mental illness, and homeless and very low-income households living with HIV/AIDS. I will briefly discuss the need for local administration of the program as it relates to the project-based Section 8 program, and lastly conclude with recommendations for program improvements.

Permanent, affordable housing is the most important intervention that can help a homeless person or family regain some semblance of normalcy and health. This is borne out by the research findings of several in-depth studies that the most important intervention in the stability of homeless families is stable, affordable housing.[1]

Section 8 Homeless Assistance Program

In 1991, the Housing Authority of the City of Los Angeles (HACLA) with Shelter Partnership's assistance responded to a request from HUD to develop a Section 8 rental assistance program that targeted families and the disabled who were homeless. With the leadership of the late Mayor Tom Bradley, $250,000 in Community Development Block Grant (CDBG) funds was allocated to the project to help fund 12 community-based organizations. These agencies were funded to assist homeless households prepare to move into housing, locate housing, and outreach to landlords on behalf of the households. As a result, more than 1,600 housing Section 8 housing vouchers were awarded by HUD to HACLA (equivalent to 66% of the total County's allocation) and the Section 8 Homeless Assistance Program was born.

Today, HACLA has assisted more than 5,100 families and single households who were previously homeless through the program.[2] The Housing Authority of the County of Los Angeles (HACoLA) replicated this program in 1995 and currently 1,467 homeless households have secured Section 8 assistance.

In addition to receiving housing placement assistance, these previously homeless households have also received on-going case-management for at least six months after they moved into housing. This is particularly important because many people who have experienced homelessness begin to experience great difficulty generally after three months in stable housing. The households also receive help with move-in grants, largely from the federally funded Emergency Food and Shelter Local Board Program, as well as assistance in securing needed furniture, etc. They also receive services to help them become acquainted with their new neighborhood to improve their chances of success.

As a result of this successful program, HACLA has expanded the program to include maximum utilization of the Shelter Plus Care Program, which couples rental

[1] Marybeth Shinn, *Predictors of Homelessness Among Families in New York City: From Shelter Request to Housing Stability*, 1998; Debra Rog, *Reconnecting Homeless Individuals and Families to the Community*, 1998; and the U.S. Department of Housing and Urban Development, *Priority Home: The Federal Plan to Break the Cycle of Homelessness*, 1995.

[2] Housing Authority of the City of Los Angeles (HACLA), Section 8 Division, *Housing Opportunities for Persons with AIDS (HOPWA) Status Report: Tenant-Based Rental Assistance Program*, Prepared for the Los Angeles Housing Department, May 2, 2003.

assistance and housing for disabled homeless individuals. Since the inception of this federal program in 1992, HACLA has successfully secured rental assistance payments through this program with 1,214 units now awarded. HACoLA has successfully secured rental assistance payments for 510 units

Integrated Services for Homeless Adults Program

One partnership that I would like to highlight is with the Los Angeles County Department of Mental Health and their 16-partner mental health agencies implementing the State's Integrated Services for Homeless Adults Program. Established as a pilot program in 1999 in three California counties, this program has now been expanded to serve nearly 5,000 homeless mentally ill adults in 34 counties.

This program, with a strong outcome orientation, is designed to assist homeless mentally ill individuals who live on the streets or have been incarcerated in jails accomplish several goals, including the following: 1) live in the most independent, least restrictive housing feasible in the local community; 2) reduce or eliminate antisocial or criminal behavior and thereby reduce or eliminate their contact with the criminal justice system; and 3) reduce or eliminate the distress caused by the symptoms of mental illness.

From 1999 through January 31, 2003, in this program there has been a 67% decrease in homeless days (from 983,709 to 321,667), a 72% reduction in incarceration days (from 213,106 to 59,434), and a 56% reduction in psychiatric hospitalization days (from 37,938 to 16,778).[3]

The program has been particularly successful in Los Angeles County where through a partnership with HACLA and HACoLA, more than 60 homeless mentally ill individuals enrolled in the program have obtained permanent, supportive and affordable housing this past year alone. The mental health agencies continue to work with the individuals to assure that they are able to maintain their housing.

Overall, homeless individuals with mental illness have secured more than 1,000 Section 8 vouchers through HACLA and HACoLA.

Housing for Persons Living with HIV/AIDS

Another homeless and low income population that I would like to highlight in my remarks today that have greatly benefited from a partnership with local housing authorities are persons living with HIV/AIDS. Los Angeles County accounts for 5% of the country's AIDS cases and one-third of all AIDS cases in California.[4]

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[3] Mental Health Association Los Angeles, "Reducing Incarceration and Homelessness among People with Mental Illness: An Update on the First 3 Years of the California AB 34/2034/334 Program." June 12, 2003.

[4] Los Angeles County Department of Health Services (DHS) and the Office of AIDS Programs and Policy (OAPP). *Ryan White Comprehensive AIDS Resources Emergency Act Title I Application Fiscal Year 2003*, October 9, 2002.

Furthermore, an estimated one-third to one-half of persons living with AIDS in the United States are either homeless or at imminent risk of homelessness.[5] In a 1999 study by Shelter Partnership of persons living with HIV/AIDS in the City and County of Los Angeles, 65% of survey respondents had been homeless at some point in their lives. For respondents who had reported being homeless, nearly half (46%) were currently homeless. Moreover, up to 50% of the respondents who were not currently homeless believed that they were at imminent risk of becoming homeless.[6] According to the Los Angeles County Office of AIDS Programs and Policy estimates, 7,571 homeless persons are living with HIV/AIDS, including 2,911 persons living with AIDS.[7]

In conjunction with the locally administered federally funded Housing Opportunities for Persons Living with AIDS (HOPWA), beginning in 1993, HACLA has assisted more than 2,080 families, with 1,165 families "rolled over" to now receiving a Section 8 rental subsidy. How this works is that for one to two years, HOPWA funds are utilized to fund Section 8 rental assistance subsidies operated by four respective housing authorities (HACLA, HACoLA, Long Beach and Pasadena). Participating non-profit organizations in the City's system have included several agencies serving persons living with HIV/AIDS, including AIDS Project Los Angeles, AIDS Service Center, Minority AIDS Project, Palms Residential Care Facility, and Watts Labor Community Action Committee.[8]

HACoLA has assisted almost 500 persons living with AIDS secure Section 8 vouchers through this program.

In 2001, HACLA developed a "fast track" program, utilizing a dedicated phone line, for persons living with HIV/AIDS. As of spring 2003, 1,441 HOPWA "Fast Track" participants living with HIV/AIDS have already been contracted and moved into subsidized housing.[9]

<u>Project-based Section 8 Vouchers</u>

In the 2001 federal Appropriations Act, the number of voucher units were increased that a Public Housing Authority may opt to project-base and extend the program to existing housing not needing rehabilitation. However, in the last month the proposed rules, under review by OMB, have been withdrawn.

We are concerned about this development because currently project-based developments cannot be implemented in census tracks where more than 25% of the individuals are living in poverty. Unlike the majority of the country, the Los Angeles-Long Beach metropolitan statistical area saw a significant increase in concentrated

[5] J.Y. Song. *HIV/AIDS & Homelessness: Recommendations for Clinical Practice and Public Policy.* Health Care for the Homeless Clinicians Network, National Healthcare for the Homeless Council, Inc.: Nashville, TN, November 1999.
[6] Shelter Partnership, Inc. *A Report on Housing for Persons Living with HIV/AIDS in the City and County of Los Angeles.* City of Los Angeles Housing Department, June 1999, 27.
[7] DHS and OAPP (October 9, 2002.
[8] HACLA, May 2, 2003.
[9] HACLA, May 2, 2003.

poverty among both the black and Hispanic poor. According to the 2000 Census, 137 census tracks were high poverty areas, whereas in 1990, there were 56 census tracks in high poverty areas, for an increase of 144%.

This was largely the result of concentration in Hispanic high-poverty communities. According to The Brookings Institution: "With their substantial immigrant populations, Western inner-city barrios could represent more of a "gateway" to residential and economic mobility than inner-city ghettos in other areas of the country." [10]

Los Angeles County and Los Angeles City, as well as the State of California, have made recent major commitments to the development of affordable housing, however, without the ability to project-base Section 8, opportunities will be lost to serve the very poorest in our community. The most important source for operations for housing for previously homeless or very-low income households is rental assistance connected with the unit. According to a 1999 study conducted by Shelter Partnership, of the 1,624 permanent housing units funded in Los Angeles, 80% of the units had some form of Section 8 rental assistance attached to the unit.[11]

Conclusion

In Los Angeles County, with a population of more than 9.5 million residents, the Section 8 Program is working very well and is helping the poorest amongst the poor gain a foothold in our society. We strongly encourage your Committee to continue its extremely successful partnership with local housing authorities and to increase their ability to respond to local changes in a rental market that is market driven.

We agree with other observers who believe that there should be more control given to the local housing authorities to help establish rent levels. For instance, when HUD established the market rent at the 40th percentile of Fair Market Rents, it was very difficult to find landlords willing to accept Section 8 tenants. The new standard approved by HUD in October 2002 at the 50th percentile of Fair Market Rent for the Housing Authority of the City of Los Angeles (HACLA) has resulted in the lease-up rate increasing from less than 90% to the current rate of 99%.

In conclusion, local housing authorities, working with community-based organizations, are able to identify interventions that are needed to meet the needs of their residents, including persons who are homeless and disabled. We fear that this feature would be lost with the proposed State block grant proposal.

Thank you very much for the opportunity to share our views before the Subcommittee today.

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[10] Paul A. Jargowsky, *Stunning Progress, Hidden Problems: The Dramatic Decline in Concentrated Poverty in the 1990's*, The Brookings Institution, Center on Urban and Metropolitan Policy, May 2003.
[11] Shelter Partnership, *Permanent Housing for the Homeless, A Study and Directory of Resources, Los Angeles County*, February 1999.

NMHC National Multi Housing Council

National Apartment Association

TESTIMONY OF THOMAS K. SHELTON

REGIONAL PARTNER,

GREYSTAR REAL ESTATE PARTNERS

AND

PRESIDENT,

NATIONAL APARTMENT ASSOCIATION

ON BEHALF OF THE

NATIONAL APARTMENT ASSOCIATION/

NATIONAL MULTI HOUSING COUNCIL

JOINT LEGISLATIVE PROGRAM

BEFORE THE

HOUSE COMMITTEE ON FINANCIAL SERVICES

SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

JULY 1, 2003

The American apartment industry...working together for quality, accessible, affordable housing.

SUITE 540 • 1850 M STREET, NW • WASHINGTON, DC 20036 • (202) 974-2300 • FAX (202) 775-0112 • WEB SITE: WWW.NMHC.ORG

Chairman Ney, Ranking Member Waters, and distinguished members of this Subcommittee, my name is Thomas Shelton. I am Regional Partner of Greystar Real Estate Partners, one of the largest privately held apartment firms in the country. Greystar manages a portfolio of 48,000 units in 22 states, and for the past five years has annually developed in excess of $100 million of multifamily housing. I am currently responsible for all geographic areas west of Austin, Texas. I am also President of the National Apartment Association (NAA), an industry group representing over 30,000 apartment executives and professionals who own or manage 4.2 million apartment units and a member of the National Multi Housing Council (NMHC), a national association representing the nation's larger and most prominent apartment firms. It is my pleasure to testify on behalf of both organizations. Our combined memberships are engaged in all aspects of the apartment industry, including ownership, development, professional management, and finance. Together, NAA/NMHC members own and manage over five million apartment homes nationwide.

NAA and NMHC commend you, Chairman Ney, for your leadership, and we thank the Members of the Subcommittee for your valuable work addressing affordable rental housing in America. We also commend U.S. Department of Housing and Urban Development (HUD) Secretary Mel Martinez and the Administration for their interest in improving the Section 8 Housing Choice Voucher Program.

We, too, believe it is critical to meet the housing needs of low- and moderate-income families, and believe that improving the Section 8 program is a central part of meeting those needs. NAA/NMHC urge Congress, and HUD, to enact reforms to the existing Section 8 program that will encourage apartment owner participation and, in turn, increase housing available to voucher holders. Although it is well intentioned, we think the Housing Assistance for Needy Families Act of 2003 (H.R. 1841) will not reduce the administrative costs to participating property owners and will not maximize program benefits for residents as it does not bring the program closer to conforming to conventional market practices. Instead, the proposed legislation could create new obstacles to apartment owner participation without alleviating existing burdens. The net result could be fewer available apartments for voucher residents.

Professional apartment owners, in partnership with the current voucher administrators, have made great strides in helping low-income families find quality affordable rental housing through the Section 8 program – a partnership that helps the community as a whole. NAA/NMHC wholeheartedly support the Section 8 program as a means to engage private housing providers in providing affordable rental housing to families who need it. We believe more apartment owners would participate in the program if the costs of renting to voucher residents were more comparable to the costs of serving unsubsidized residents. Market "transparency" is especially important in high-cost areas where affordable rental housing is particularly scarce.

The Section 8 Program in High-Cost Markets

Barriers to program participation can be particularly formidable in large, high-cost areas. For example, the Los Angeles City Council recently adopted an ordinance that effectively prohibits property owners from terminating Section 8 leases which, in turn, discourages owners from joining the program for fear that they will not be permitted to opt out in the future. Under the new law, if an owner chooses to terminate a Section 8 lease and convert that unit into a conventional one, for five years the owner may only collect the portion of rent for which the Section 8 resident was formerly responsible. Local property owners report that the new law has already contributed to a decrease in affordable housing stock because they left the program in advance of the law's passage and are not entering into new Section 8 leases. This city ordinance will only serve to deter owner participation and, in turn, reduce the availability of Section 8 apartments.

Local Los Angeles-area owners also say that inefficiency in Section 8 administration results in frustration among owners. Poor communication to owners from Section 8 administrators is particularly troublesome. For example, periodic unit inspections are not scheduled at specified times, so owners must often wait for hours to meet inspectors. Relatedly, inspectors have difficulty with accurately identifying resident-caused property damage and owners are forced to pay for repairs caused by Section 8 residents. According to local owners, improved education for local inspectors would result in more efficient, streamlined administration and encourage owner participation in Los Angeles.

NAA/NMHC propose the following recommendations to achieve the goal of market transparency:

1. Fair Market Rents, Payment Standard, and Income Caps

The lack of affordable rental housing in America is particularly acute in high-cost metropolitan areas like Los Angeles. The Section 8 program is a crucial part of helping those with the greatest need find decent homes, however, the program's success is hindered because Fair Market Rents (FMRs) are too low and have not kept pace with fast-rising rental markets. Since FMRs do not reflect market realities, too many vouchers are turned back because voucher holders are unable to find housing with rents that are within the allowable range. In high-cost areas, many more vouchers are usually allocated than will actually be used because a significant number of those vouchers will returned unused.

FMRs, set annually by HUD for each metropolitan area, must be set high enough to encourage owner participation and, in turn, create a sufficient supply of apartments and choice for voucher holders. We thank HUD for raising the current FMR level to the 50th percentile in 39 high-cost areas, but that level is insufficient in certain areas with extremely high-cost sub-markets. We urge HUD to allow flexible FMRs that are more reflective of high-cost sub-market realities.

The current payment standard, the maximum amount that the housing agency will pay toward a family's rent minus thirty percent of the tenant's adjusted income, is generally capped at 110 percent of an area's FMR. If the area's FMR does not accurately reflect local market conditions, and the payment standard is not sufficiently high to allow owners to earn sufficient income to meet costs, owners will not participate in the program. Low FMRs are a primary reason many apartment owners do not participate in the voucher program. NAA/NMHC urge program changes that will allow PHAs to raise the payment standard to 120 percent of FMR without HUD approval, and afford PHAs increased flexibility to request higher payment standards when necessary to reflect actual market conditions in a particular location.

New voucher holders, and those already in the program who are moving to new homes, may not pay more than 40 percent of their adjusted monthly income for rent and utilities. Often times, however, voucher residents would like to rent an apartment that would require flexibility in the 40 percent cap. For example, if the father in a family were to dies, the mother's share for the apartment would require a payment exceeding the 40 percent cap. Simply put, the qualified voucher holder would have to move from her home simply because her spouse died. Flexibility is essential in such situations.

2. Funding

Some assert that the Section 8 appropriations structure should be reworked and reduced. Historically, many criticized the Section 8 appropriations structure because too much funding remained unused each year. To be sure, appropriations were once based upon the erroneous assumption that every authorized voucher would be utilized for an entire fiscal year and funds were routinely recaptured and rescinded. Those returned funds reduced annual appropriations to the amounts actually used. Effective this year, Congress enacted changes to minimize recaptures and, moreover, national utilization rates have risen to nearly 96 percent. That success should be recognized and the process supported. NAA/NMHC support increased utilization rates, and we believe that the existing successful appropriations structure is working. We have considerable concerns about the complexity of the proposed state-level funding structure contained in H.R. 1841. We urge continued funding for the existing program structure administered by HUD.

3. Inspections

Under current law, before an apartment is eligible for lease to a Section 8 voucher holder, the administering Public Housing Authority (PHA) must inspect that unit for compliance with HUD-prescribed Housing Quality Standards (HQS). Unit-by-unit inspections cause intolerable leasing delays and do not necessarily satisfy HUD's objective of protecting residents and assuring owner compliance with the Department's health and safety criteria. Unit-by-unit inspections delay resident occupancy even if the

PHA conducts its inspection within the required time frame, and some apartment owners report delays of 30 days or longer. The apartment industry relies on seamless turnover to meet its overhead costs, and the financial implications of such delays are sufficient to deter them from participating in the program.

As proposed, Section 11 of the proposed legislation would extend the existing inspection requirement to HANF. PHAs would conduct individual unit inspections rather than property-wide inspections or relying upon recent past inspections. Importantly, the HANF bill specifically states that owners would not receive any subsidy revenue until an inspection is completed, and the bill is silent on whether residents could move in prior to an inspection. In short, the proposed inspection provision would do nothing to fix the lost revenue problem.

NAA/NMHC propose speeding up the move-in process by allowing PHAs to conduct individual unit inspections within 60 days after the resident moves in and payment commences. PHAs could also conduct building-wide, rather than unit-by-unit, inspections in certain cases and rely upon recent past individual inspections. Alternatively, PHAs could initially inspect a representative sample of units in order to "certify" that the building is eligible. Thereafter, periodic inspections would assure that the property remains compliant with program rules. This approach would reward well-managed properties, allow PHAs to focus their scarce resources elsewhere, and maintain resident safety.

4. Payment System

PHAs are required to make prompt subsidy payments to apartment owners. However, subsidy payments are sometimes untimely either because of antiquated systems or processing delays. Just as owners would not regularly accept late rental payments from conventional residents, they should not be asked to accept late subsidy payments. We commend HUD for authorizing a $75 late fee charged to PHAs that do not make timely payments due to accounting inefficiencies. We urge Congress and HUD to continue their efforts to provide timely payments to owners by ensuring that PHAs have the ability to make automated electronic fund transfers to owners. Some PHAs already use automated funds transfer systems but it would be helpful if HUD would provide technical assistance, funding, and other support to ensure that all PHAs have the capacity to utilize automated payment systems. HUD also should establish incentives to facilitate timely payments to owners.

Conclusion:

In summary, NAA/NMHC believe that the existing Section 8 program, with improvements I have just noted, will make affordable housing available to more Americans. Widespread participation is not always economically feasible in the absence of the aforementioned program reforms that will reduce the sometimes-significant costs and burdens imposed on implementation of the program. I thank you for the opportunity to testify on behalf of the National Apartment Association and the National Multi Housing Council, and wish to offer our assistance to the Subcommittee as you continue your important work to improve affordable housing opportunities for low- and moderate-income families.

Testimony of Donald J. Smith
Executive Director of the Housing Authority of the City of Los Angeles
before the
Subcommittee on Housing and Community Opportunity
House Committee on Financial Services
July 1, 2003

Los Angeles has a very large and growing need for housing assistance and affordable housing. The Housing Authority of the City of Los Angeles works to meet this need by providing a wide range of housing and housing assistance programs, and by integrating partners and services to promote family self-sufficiency into all its housing programs.

I. Introduction

There is a housing crisis in Los Angeles and much of California. The waitlist for our Section 8 program shows it. Over 70,000 households are on our Section 8 waitlist and an average of more than 4000 households register each month. The waitlist for our fully occupied public housing has grown more than 61% since October 1, 2001.

- In the "Out of Reach 2002" ranking of states with the least affordable housing, only Massachusetts outranked California, and six of the nation's top ten least affordable Metropolitan Statistical Areas (MSAs) were California communities.

- The California Association of Realtors (CAR) reports only 27% of households had the required $84,480 income to afford California's April 2003 $363,930 median priced home, based on a 30-year mortgage at 5.72% and a 20% down payment of $72,786. This down payment equals the price of a home in some parts of the nation. The affordability rate in Los Angeles was 29% of households.

- RealFacts reports and surveys indicate that the average rents in large complexes in Los Angeles County rose 36% from 1998 to $1299 by late December 2002.

- "Out of Reach 2002" reports it takes full time employment at $19.69 per hour to afford an apartment in Los Angeles that rents at HUD's two-bedroom 2003 Fair Market Rent set at the 40th percentile of the market. This translates to a household of three adults working full time at California's minimum wage of $6.75, or four full time workers at the federal minimum wage of $5.15.

- Per the 2000 Census, 7,985,489 families in California are below the federal poverty level, and 147,516 families, or 801,050 individuals in the City of Los Angeles are below the federal poverty level. It appears at least 611,457 households qualify for Section 8 in Los Angeles using a very conservative estimate based on 2000 census households with incomes below the Section 8 upper limit for a family of two. 169,738 households had incomes below $10,000.

- FMRs at the 40th percentile reduced housing search success of voucher holders to 39%. HUD only recently granted Los Angeles a waiver to set its Voucher Payment Standards at an FMR based on the 50th percentile of the market.

The growing gap between housing costs and family incomes explains why the 2000 Census found that 61% of Los Angeles households are renters. While we support, and have programs to promote, increased homeownership, market realities will limit the reach of such efforts. For renters, unless the nation is willing to significantly increase the minimum wage, or California drastically increases its housing supply, the need for housing assistance programs will continue. The housing crises in Los Angeles and other parts of the nation, makes it clear that more housing assistance is needed.

II. The Housing Authority: Effective Service Delivery Through a Network of Partners Based on Knowledge of Local Markets and Needs

Our experience since our founding in 1938 in a variety of regulatory, economic, and social policy environments taught us that healthy local communities come about through the collective attitudes and actions of constructively engaged and progress oriented local residents. The Housing Authority has consistently worked to achieve high levels of performance in its Section 8 and public housing programs, continually sought to increase the services we provide, and expanded and improved services and services access for our participants.

We began our Section 8 program in 1975, and quickly became a reliable local provider and a national leader in Section 8, with the nation's second largest program, and the greatest variety of sub-programs targeted to meet the special needs of targeted groups. Our current lease-up rate is 99%.

Our success in Section 8 is based on the positive relationships with local owners and owner associations that we have built since 1975 to increase the units available to participants, and to assist owners in improving their properties so that they met Section 8 Housing Quality Standards (HQS). We continued to apply for new allocations, and for new sub-programs targeting populations with special needs. We then built an effective network of local partner agencies and nonprofits to meet those needs.

The Housing Authority's vision and service to the City of Los Angeles is broad, and can be summarized in the following principles:

- Maintain high performance in core programs and activities
- Continually pursue new housing opportunities, allocations and programs
- Develop innovations and new initiatives locally
- Work for program improvements with industry groups, HUD & Congress
- Actively develop partners to meet the complex range of customer needs
- Work effectively with a large number of partner agencies and nonprofits
- Fully integrate self-sufficiency efforts with housing programs

The Housing Authority provides housing and housing assistance to more than 134,000 people in our public housing and Section 8 programs. We are deeply involved, and a leader, in coordinating local delivery of self-sufficiency, employment, education, youth and family services with affordable housing. We recognize housing with integrated services achieves greater success in permanently moving families to self-sufficiency.

The results in our public housing program have been a sharp reduction in the level of welfare dependence. In 1995, welfare was 41.7% of public housing family income, and only 34.1% came from jobs. By 2002, 55.9% of public housing family income came from employment, and only 19.7% was from welfare. The amount of resident income from wages more than doubled over eight years ending in 2002, from $21 million to $47.5 million. During the same period, income from welfare fell from $25.8 million to $16.8 million.

Because of the huge loss of Section 8 participants during the conversion of the Section 8 Certificate program to the Housing Choice Voucher program, looking at the same period for Section 8 participants does not yield a similarly reliable measure of change.

In 2002, the Section 8 program's Family Self-Sufficiency (FSS) Program had 2800 families enrolled; with a collective $3.9 million accumulated in FSS escrow savings accounts. Patricia Buzenes is an example of FSS success. Over five years, she moved from a household income of zero through job training with our partner, the United Auto Workers (UAW-LETC), to a $34,000 job as a bus driver for the City of Monrovia. She saved almost $10,000 in an FSS escrow savings account.

Chanda Peters, who we understand will give her own testimony to the Subcommittee, is another example of how housing assistance coupled with effective service delivery not only rescues families from current hardship, but also reverses falls into dependency. Ms Peters enrolled in FSS in 1995, successfully completed the program in 1997, and used her $14,000 in FSS escrow savings to purchase a home in 1998. Her three daughters are well along the road to their own self-sufficiency and economic success due to the family's commitment to academic achievement and completing college.

All levels of government and society share the goal of promoting healthy communities of better educated, and more self-sufficient people. Achieving this goal depends first on providing the stable foundation of the security of affordable housing, and then providing access to the broad range of services needed to meet the serious and diverse needs of disadvantaged households.

It takes local agencies that know their local markets, know how to work effectively with local owners, partners, and agencies, and know and understand the needs of local populations to effectively deliver the affordable housing and other services necessary to position disadvantage people to make the right choices. Families must be able to both move toward self-sufficiency, and insure their children have a solid foundation and good education so that they continue the family's economic progress. This has been the mission of the Housing Authority in its service to Los Angeles for more than a decade.

Participants in all of our programs are encouraged to participate in our Family Self-Sufficiency (FSS) program, our Welfare-to-Work (W-t-W) grant programs, our Workforce Investment Act (WIA) One-Stop WorkSource Center services, and other adult education and economic development programs.

Currently, our FSS program has assisted 165 families to graduate to self-sufficiency has 2,550 current participants, with 765 building for their future by contributing to an escrow earnings account. In 2002, we awarded $332,114 in such escrow savings to successful FSS participants. The funds were used toward purchasing homes, for higher education, to secure needed transportation, and toward establishing or improving businesses. Some of our partner agencies for the FSS program are: UAW-LETC; Los Angeles Family Housing; Community Career Development, Inc.; Lutheran Social Services of Southern California; MCS Rehabilitation, Inc.; San Fernando Valley Interfaith Council; and Community Centers, Inc.

The purpose of some subprograms determines the partners involved. Our long and constructive partnership with the Los Angeles County Department of Public Social Services (DPSS), in several shared efforts to promote employment, reduce welfare dependence, and encourage participation in CalWORKS, set the stage for our speedy success in fully utilizing all awarded W-t-W vouchers. In fact, we doubled the allocation for this effort by adding vouchers from our regular allocation.

We have also added a major new area of operations in 2003, to:

- Implement the new contract to be the Contract Administrator for HUD's Project-based Assistance properties in southern California awarded to our Los Angeles LOMOD (nonprofit) Corporation.

One of our nonprofit corporations, the Los Angeles LOMOD Corporation, was selected by HUD as Contract Administrator for over 48,500 units in more than 800 Section 8-assisted projects in ten Southern California counties: Kern, Imperial, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Luis Obispo, Santa Barbara, and Ventura. LOMOD will carry out Contract Administration to assure the properties provide quality housing for eligible seniors, persons with disabilities, and families. Under a performance-based contract with HUD, LOMOD will handle on-site management reviews and tenant concerns, renew expiring contracts, and make payments to owners.

III. The Los Angeles Housing Market Challenges the Section 8 Program

- If California were a nation, its economy would rank sixth in the world
- If Los Angeles County were a state, its population would rank ninth in the U.S.
- If the City of Los Angeles were a state, its population would rank it 27th, behind California and 25 others, and just after Colorado, Kentucky, and South Carolina.

California's population of nearly 34 million per the 2000 U.S. Census is 12% of the national total, and is expected to grow by 600,000 a year through the decade. This growth against decades of under-producing new housing is the key cause of the housing crisis. For the last few decades, it has been estimated that California produced about 100,000 fewer units per year than was needed to keep up with population growth.

The result is the current environment of high home prices and high rents. Los Angeles' median home price for May 2003 was reported as $313,000, a 21.3% increase in one year. Since CAR estimated that only 29% of Los Angeles households could afford the lower April 2003 median home price, it is clear why the 2000 Census found that more than 61% of Los Angeles households are renters. But renting is also expensive. A December 2002 RealFacts survey found an average rent of $1299 in LA County.

For several years, the Miliken Institute has cited the short supply of housing affordable to workers as a key barrier to business recruitment and retention in California. As one moves down the income ladder, the housing affordability problem worsens dramatically. Recognizing the destructive impact the housing crisis has on families, communities, schools, health care, public safety, businesses and the economy, led California voters to pass a $2.1 billion Housing Bond last year. Given California's current and projected budget problems, Housing Bond funds may be the only contribution the state can make to housing for the next few years.

Los Angeles is California's most populous City and most populous County. With the City nearly fully built out, adding more housing units is a challenging prospect of infill, site re-use, and higher density housing construction. The City of Los Angeles has taken several key steps to improve the housing supply. The City established a Housing Trust Fund, actively pursues other sources of housing funding, and has an aggressive Code Enforcement program to improve the quality and habitability of existing housing units.

The sharply rising housing cost challenge posed by inadequate supply in the face of sharp population growth is worsened by California's and Los Angeles' high levels of poverty, and the trend of flat or declining median incomes reported by the decennial census reports and interim census surveys. The median incomes that HUD calculates for determining income eligibility limits includes calculations of housing costs, and annual inflation factors, and so tend to run higher than census reported medians. For example, HUD reported a $52,100 median income for the Los Angeles-Long Beach MSA for 2000, but the 2000 Census reported a median household income for the similar area of Los Angeles County as $42,189.

Based on Census estimates, the Los Angeles Almanac reported that Los Angeles County median household income rose only $7224 or 20.7% over the 1989-1999 decade, from $34,965 to $42,189, while the Consumer Price Index rose 34.6%. If the last decade's 20.7% growth in median household income is compared to the above one **year in jump in Los Angeles home prices of 21.3%**, the market challenge becomes clear.

While Los Angeles is home to great wealth, Los Angeles County also has a larger welfare population than that of 48 states. This income gap creates a disastrous housing market for lower income households. The 2000 census shows that California home values were more than $90,000 above the national average in 1999. Since then we've had three years of double-digit price increases. Rents are also up sharply.

While the Housing Authority supports the administration's emphasis on increasing homeownership, especially among minorities, our housing prices limit the impact this effort can have in California and Los Angeles. To overcome the large gap between prices and incomes, the Housing Authority has developed a network of partners for first and second mortgages, and down payment assistance.

Los Angeles needs more housing assistance and more assistance in constructing affordable housing, particularly multi-family housing in our built out cities. Our deep knowledge of the market and strong relationships and credibility with property owners, gives us the needed capacity to effectively deliver housing assistance. Our strong, wide, and diverse network of partnerships with employment, health, and social service provides positions us for effective leadership in self-sufficiency efforts based on the secure stability of affordable housing.

IV. Over-coming Market Obstacles through Partnerships and Innovation.

- The Housing Authority of the City of Los Angeles partners with 17,000 owners to make the Section 8 program a success in Los Angeles.
- We partner with a large network of agencies and nonprofit organizations to provide effective of housing, supportive, and self-sufficiency services.

It takes this full knowledge of local housing markets, effective relationships with owners, and strong partnerships with local agencies and nonprofits to effectively administer Section 8 programs to meet needs of disadvantaged people.

Decisions made at different levels of government, and by companies in different parts of the country, can cause drastic changes in local housing markets, as factories open or close, industries grow or shrink, and the economy overall prospers or falters. Such events tend to immediately reduce state tax revenue, making it difficult to impossible for states to respond effectively in a timely manner to the broad range of new service costs that follow. Thus local delivery of housing assistance must continue to be backed by federal funding.

When we re-opened Section 8 applications in 1998, over 100,000 application requests were received in the first few weeks. To meet this obviously growing need for housing assistance resulting from Los Angeles's population growth and complex economy, the Housing Authority consistently pursued new Section 8 allocations. Thanks to the many years in which Congress appropriated funds for incremental vouchers, and our record of performing, HUD regularly awarded us new Vouchers and new sub-programs.

However, several national and local events turned what had been a fairly good housing market in Los Angeles into a very low vacancy market with sharply rising rents starting in 1997. The Housing Authority, which had been a national leader and high performer in Section 8, since the program began in 1975, suddenly faced huge challenges.

Our normal experience of nine out of ten voucher holders find and successfully contract a unit under Section 8 dropped to a low of four out of ten succeeding by 2001. This was due to several factors:

- Because the population grew sharply, and the dot-com and general economic surge created a significant number of highly paid jobs, beginning in the mid-1990s the housing demand greatly exceeded supply. The rental market tightened, vacancy rates dropped to as low as 2% by the late 1990's, and rents rose sharply.

- Yet effective October 1995, HUD reduced the Section 8 Fair Market Rents (FMRs) from the 45^{th} to the 40^{th} percentile of the market. This left only 20% of a dwindling market available to Section 8, because the bottom 20% does not pass inspections. HUD then intensified this challenge to the market by again reducing FMRs for the Los Angeles in October 1997, based on a Random Digit Dialing (RDD) survey. Thus Section 8 FMRs were reduced twice, just as the private sector was reporting, and we were encountering, significant rent increases.

- From 2000 to 2001, the old Section 8 Certificate program was converted to the Section 8 Housing Choice Voucher program. The timing was disastrous for Los Angeles, because HUD required that owners be given the option to leaving the program rather than convert. In a tight market with sharply rising rents, owners of 8000 units chose to leave. The same market that benefited owners caused the tenants of 4000 of those 8000 units to fail to find replacement housing. Their incomes and the lowered Section 8 FMRs made them unable to compete. They no longer receive assistance.

These events were a perfect prescription for failure, and occurred just as HUD began a stiff, new performance monitoring system for Section 8. The Housing Authority faced a grim decision: stop applying for new allocations in order to maintain program performance at the cost of reducing our ability to serve the City's growing needs, or continue to apply for new allocations, but endure reduced performance ratings their receipt would create.

The Housing Authority chose to pursue greater good, build additional partnerships, and implement program innovations. We:

- Continued to apply for new allocations and new sub-programs.

- Completed conversion to Housing Choice Voucher (HCV) program, increased staff to attempt to re-contract the 8 Special 8000 families, who lost their rental assistance because their landlord opted out of Section 8, and assisted families from the long waitlist.

- By the end of 2002, we regained an overall lease up of 42,432 (97.2% of one year/older allocations - 5,787 more units than 2001.)
- By the end of May 2003, we reached 99% lease-up.

Innovation: Implemented same-day voucher issuance for those providing all required verifications at initial interview (30% of applicants benefited)

- Added a new "Tenant Empowerment Success Strategies" (TESS) unit to Owner Outreach efforts to retain and recruit owners, and to partner with other agencies to assist participants in overcoming special barriers in their housing search efforts, such as disability, homelessness, or victimization.
- **Innovation:** Reduced to one week, the wait for the first rent subsidy check by implementing a same day "contract move-in" process when owners return signed contracts.

- Performed a market rent analysis demonstrating the huge gap between HUD's published Fair Market Rents (FMRs) in Los Angeles and actual rent levels
  Result: HUD corrected area FMRs resulting in a 17% increase in 2002.

- Applied to HUD for exception allowing higher Voucher Payment Standards (VPS)
  Result: Granted exception to set VPS at 50th percentile of the market.

- Continued applying for allocations to meet Los Angeles's growing needs, and expanded partner services.
  Result: With a fully leased Welfare-to-Work Voucher allocation and our strong partnership with the Department of Public Services, the Housing Authority added regular Vouchers to nearly double the number committed to this effort.

By adopting a business plan, strategically increasing staffing, working with partners, and implementing several innovations, the Housing Authority was able to overcome the tight housing market and return to its standard high lease-up rate. The size and complexity of our program is reflected in the following examples of key areas of 2002 productivity that set the stage for our return to a 99% lease-up by June 2003:

- Mailed 70,000 applications out to registrants on the waitlist.
- Entered 27,755 new registrants on the waitlist. (By 6/20/03 added 24,000 more.)
- Scheduled 43,772 initial interviews, and conducted 28,614.
- Issued 21,646 Vouchers.
- Received 10,665 Requests For Tenancy Approvals (RFTAs).
- Conducted initial (pre-contracting) inspections on 12,355 units.
- Conducted a total of 79,229 inspections.
- Completed 52,031 income and rent reviews.

Although it took time, our choice and efforts have proven to be the right ones. More people are assisted in Los Angeles than ever before, our current lease-up rate is 99%, and we continue to improve and expand our program operations and services.
We believe that our local administration, relationships with owners and nonprofits, and our efforts to create leadership and employment incentives for participants make a more effective program.

V. The Section 8 Recapture Issue

Just as the Housing Authority's right choice for Los Angeles led to the temporary consequence of lowered lease-up in a highly resistant market, when Congress makes the right choice for the nation by appropriating funds for incremental Housing Choice Vouchers, it sets the stage for some degree of housing fund recaptures.

Because the scoring for the one-year incremental voucher funding begins at appropriation, but HUD does not award the incremental vouchers until several months later, some funds will not be used in the appropriating year. The larger the new allocation to a housing authority, and the more resistant its housing market, the longer it will take a housing authority to contract the new voucher allocation.

The radical tightening of several major housing markets since the mid-1990s intensified the utilization challenge for many housing authorities. HUD's requirement to allow owners to opt-out rather than convert to the Housing Choice Voucher program was a poorly timed additional challenge, and proved disastrous for large programs in tight markets.

The Housing Authority of the City of Los Angeles was one of the most impacted. Although our choice to continue applying for new voucher allocations and to innovate to cope with a very difficult housing market was positive for the City and its poor residents, it also caused a short-term recapture problem for HUD and Congress. Because we received large new allocations for a tight and problematic housing market, and because we have the nation's second largest voucher program and thus high level of budget authority, the Housing Authority of the City of Los Angeles accounted for some of the highest levels of voucher fund recaptures in the country in the last few years.

HUD retrieved $244,482,202 from the Housing Authority of the City of Los Angeles in the last five years, or 16.9% of the Authority's total budget authority. The New York City Housing Authority, with the nation's largest program, had $194,726,803 retrieved over the last two years. Los Angeles had an annual budget authority (BA) of $325,555,420; with $289,407,240 for Housing Assistance Payments (HAP), and $36,148,180 for Earned Administrative Fees. Funds retrieved from Los Angeles can be explained by:

- **Our decision to apply for additional voucher allocations, and success in being awarded more vouchers, accounts for 47% of funds retrieved.**
    - Rising rents and the long, growing waitlist demonstrated the City's need.

- The waitlist is now over 70,000. More than 4000 register each month.
- The very tight market drastically reduced housing search success, and lowered search success, and thus slowed lease-up of new allocations.

- **HUD's requirement that owners be permitted to opt out of Section 8 rather than convert to the Housing Choice Voucher program accounts for more at least 21% of the funds retrieved from the Housing Authority:**
  - Owners of 8000 units contracted under Section 8 decided to opt out.
  - HACLA re-contracted 4000 of these families in other units, but 4000 families lost their assistance because they could not find new housing.

- **HUD reduced the Section 8 Fair Market Rents (FMRs) by 14% effective October 1997. The lower FMRs resulted in lower contract rents, and thus lower Housing Assistance Payments (HAP). This accounts for 14% of the funds retrieved.**
  - The lower FMRs also reduced the supply of units available to participate in the program, causing thousands of families to fail to use their Voucher.

- **Congress and HUD reduced the maximum allowable reserve account amount from 6 months of HAP to 2 months in 1997, then to 1 month in 2002, accounting for 9% of funds retrieved:**
  - Our large program and high rents mean large HAP and large reserves.

- **Normal turnover, and the protracted housing searches and failures that resulted from Los Angeles's very tight rental market could wholly explain the remaining 9%.**
  - However, it is also true, that we were conservative in our estimate of 21% attributed to converting to the Voucher program. due to incomplete documentation of this loss during the hectic effort to recontract the 8000 families whose landlords opted out.

We agree that Congress & HUD should retrieve unused BA from housing authorities that cannot or will not use it. However, we also believe it is a disservice to the community a housing authority serves for such funds to be retrieved before the housing authority was given the necessary tools and time to cope with the dislocated housing market that is often the cause of such unused funds. When the dislocation is one of supply and demand driving rents sharply up, retrieving budget authority meant to assist needy families simply worsens the community's already bad situation.

Specific steps that HUD should quickly grant a housing authority necessary flexibility when such market conditions arise are

- Local flexibility to quickly adjust FMRs in tight markets
- Flexibility to use HAP for housing search supports and security deposits, and
- Adequate time to use the vouchers (especially important in tight markets)

With measures that Congress took in the FY 2003 Omnibus budget bill, and no funding for incremental vouchers, Congress should see a sharp reduction in unused budget authority by housing authorities.

In fact, because FY 2003 appropriations provided for a 90% national utilization rate, plus another 4% in a Central Fund, it is likely additional funds will be needed to meet Congress' instruction that all allocated and used vouchers be funded. When we conducted an informal survey of several California housing authorities recently, their April and/or May 2003 lease up rates ran from 97% to 108%. The one exception was a small program in a very high rent, low vacancy city, and its rising lease-up rate was already at the full 94% that Congress appropriated.

Time to test the full impact and/or limitations of the FY 2003 changes on the complex Section 8 program is needed. Particularly, because these changes have not yet been tested in an environment of incremental voucher appropriations. With HUD's mandate to reduce lease-up rates to insure the housing authority stays under 100% utilization for the year, housing authorities will not be able to carry the over contracting that instantly absorbed some incremental vouchers. Thus even maximum contract efficiency in loose housing markets will result in some months and amounts of housing assistance going unexpended within the year appropriated.

VI. HANF Is Not the Best Solution for California

Members of Congress have pointed out that poor people cannot afford to be subjects of ongoing experimentation. Similarly, California's housing and budget crises are too severe to allow the necessary risk of failure that the HANF experiment would entail.

A large number of public, private and academic groups have already testified before the Subcommittee regarding the wide range of problems and shortcomings in the proposed Housing Assistance for Needy Families Act of 2003" (HANF).

The National Association of Housing and Redevelopment Officials (NAHRO) reported the results of Canada's HANF-like decision to devolve housing assistance from federal control to the provinces. Both levels of government backed away from their obligations and reduced housing funding. Lower-income people paid a very serious price.

- Those paying more than 50% of their income as rent rose 43%, and emergency shelter use increased significantly in many cities
- Incomes rose 4.1% per year, but rents rose 3% -7% per year from 1997 –2000
- Only two of Canada's thirteen provinces maintained their level of financial support for affordable housing programs
- Federal funds for affordable housing programs dropped $7.4 billion (1996-2001)

Now, Canada is paying the political and programmatic price to return to a responsible federal commitment to the delivery of housing assistance.

Los Angeles needs effective action:

- More housing and housing assistance, not less funding for housing.
  Voucher demand already surpasses supply
- More effective and more market-responsive programs, not experimentation.
  The program is already complex and slow to respond to markets
- More self-sufficiency supports for families struggling with low wages in a high housing cost environment.
- Fewer demands on the troubled state budget, not more.
- More local partnership and cooperation to address complex local problems, not additional layers of distant bureaucracy
  Delayed response to changing markets is costly, and the rules are complex now.

Unfortunately, HANF appears to be poised to meet none of these needs, and instead to worsen an already dire situation.

HANF would harm the poorest members of society

- Less actual housing assistance would mean longer waits on longer waitlists
- Funding below housing costs increases would mean fewer assisted, or less subsidy paid by helping poor people less or helping fewer poor people
- One HANF reform would raise tenant rents to be based on gross income.
  Those with high medical expenses, costly needs to cope with disabilities, high childcare costs, and large families, need current deductions for affordable rents.
- More directly, the bills specifically discuss assisting higher income families.

Housing markets are local and housing service delivery must be local

- Providers must know local markets and local owners to be effective
- Voluntary participation by owners means local providers must be credible
- Services must be delivered locally to owners and tenants with local partners
- Market knowledge, credibility, and partnerships take time to build.
- Housing authorities have already built these capacities.

Changing to HANF may be so disruptive that owners abandon the program

- Owners are already voicing opposition, individually and in meetings
- National owner associations have already opposed HANF
- National Mortgage Bankers testified against HANF

The HANF funding outlook is bleak:

- Block grants have not kept up with inflation let alone growing need
- Recent federal budget trends appear to indicate an intention to cut housing: the budget deficit is growing and no new vouchers were funded for 2003
- The Section 8 Administrative fee has been restricted in amount and use
- Costs to operate the program are unlikely to decline.
  Local housing costs and poverty conditions drive program costs.

HANF would add unnecessary costs to increasingly inadequate housing funds:
- State administration would be an extra cost
- State administration would likely add extra costs of regulation and reporting
- Promises that HANF will reduce costs sound like past promises that funding cuts would come with regulatory relief. PHAs are still waiting.
- Maintaining HCV provisions for current tenants for five years while implementing HANF, creates more complexity, not less, and limits cost savings

Past utilization challenges is not sufficient justification
- HANF does not address utilization, which fluctuates with market conditions
- Housing authorities solve utilization issues with local knowledge and partners
- Reportedly, the national utilization rate in January 2003 was 95.3% and rising.
- A recent survey of several California programs indicates a rate nearer 99%
- HUD directed agencies with utilization above 100% to reduce lease-up so as not to exceed 100% utilization for the year.

VII. Recommendations

1. Dynamic housing markets require local rent flexibility

While we applaud HUD for granting waivers if certain criteria are met, to base Voucher Payment Standards on the 50th percentile Fair Market Rents (FMRs), our experience, described earlier, shows that this bureaucratic approach is too little, too late, and too costly to poor families. Even before the surge in Los Angeles rents, our experience showed the 1995 reduction in FMRs from the 45th to the 40th percentile, followed by another reduction in FMRs in 1997 harmed poor families and program success.

Housing authorities need the flexibility to respond promptly to market surges, and the accountability to adjust downward if and when rents and vacancy rates relax. Costs can vary tremendously within a housing market. Greater FMR flexibility would assist in efforts to deconcentrate poverty, and allow local jurisdictions to make the best use of scarce housing funds.

Recommendation:

Raise FMRs nationwide to the 50th percentile, and conduct a new are rent survey whenever area vacancy rate drops below 3% and/or housing search success rate drops below 50%

- By allowing housing authorities to set their voucher payment standards for the best use of funds within their jurisdiction to either contract more families at lower rents, or pay higher rents but assist fewer families, housing authorities can better serve participants, owners and their jurisdictions, and better respond to changing housing markets and population or demographic shifts.

2. Test current policies and regulations against the realities of markets

We agree with Senator Bond that the nation should allow time to test the measures that Congress implemented in the 2003 Omnibus budget bill. We believe that Congress will find that low voucher utilization is no longer a serious problem.

Recommendation:

Begin program and market monitoring to measure the impact of recent changes.

- Commit to continual program quality improvement via ongoing industry, owner, and tenant meetings to respond to market changes and promote innovation.
- However, we also believe that existing, older problems still need addressing, and that the Omnibus bill has, or may have, created new challenges.

3. A new problem of over-leasing may arise.

Housing markets and costs are always in motion. If housing authorities strive for 100% utilization, they are bound to overshoot in many, if not most cases. One way to address this predicted problem, may be to link the solution to over-utilization with to a solution to the converse problem that incremental vouchers are not fully utilized immediately upon appropriation.

Recommendation:

Monitor and study the interaction of efforts to sustain 100% utilization against dynamic housing markets, for any improvements needed for maximum funding use efficiency in years with and without appropriations of incremental vouchers.

- Test creating a new biennial or multi-year "revolving fund" for incremental vouchers that would be drained by lease-up and replenished by appropriations. After working with the industry to establish reasonable over-leasing constraints, HUD would use the incremental revolving fund in two ways:
    - To immediately fund agency end-of-year over-leasing for sufficient time to allow the agency to return to allocated levels, and
    - To award incremental vouchers to eligible agencies.

4. Increase the housing that can be developed by providing more flexibility and incentives for coordinating Project-based Vouchers with Low Income Housing Tax Credits (LIHTC), HOME funds, and other funding sources to increase development, asset management and revenue diversification.

The current housing cost problems in many areas, and the coming increased demand for subsidized housing for the elderly and frail-elderly, argues for the greatest degree of program and funding flexibility. The nation's supply of housing affordable to low, very low, and extremely low-income households must be significantly increased.

Recommendations:

- **Allow housing authorities to attach at least 25% of their allocated tenant-based vouchers to the development, rehabilitation or preservation of housing structures as "Project-based vouchers", and exceed 25% with HUD approval.**

- **Give housing authorities the authority to decide on locations for project-based assistance, in coordination with the goals of the jurisdictions Consolidated Plan goals.**

- **Continue to provide project-based assistance as long as the property continues to provide decent and affordable housing to eligible households.**

- **Remove any limit the number of units that can be assisted in a building.**

Thank you for this opportunity to describe our programs, partners, challenges and successes in Los Angeles. We are also including the following information as attachments:

Attachment 1:	**Answers to the Subcommittee's Questions**
Attachment 2:	**Tenant Empowerment Success Strategies (TESS)**
Attachment 3.	**Family Self-Sufficiency (FSS) success stories**

Attachment 1: Answers to Questions from the Committee:
Instructions: The following questions reflect those areas of interest to the Subcommittee. If applicable, please address these issues in your written testimony. You need only address those questions that pertain to your specific area of expertise.

Questions Concerning General Section 8 Rental Assistance:

1. **What changes, if any, should be made to the Section 8 Rental Assistance Program to make it more efficient, cost effective and inclusive?**
   Your answer should address both the Housing Choice Voucher Program and the project-based assistance program.

The need for housing assistance is increasing sharply in Los Angeles, thus in good conscience, **our first recommendation** must be to fund the greatest possible number of incremental vouchers, and award them to localities on the basis of demonstrated need, not just performance. Increased need shown in Section 8 waiting lists expresses a growing housing affordability problem in the market. This affordability problem also expresses itself in a temporary decline in housing search success and utilization, despite the community's growing need for assistance.

Because housing markets and housing needs are local, and vary tremendously over time and geography, **our second broad recommendation** must be to establish necessary local flexibility so that timely, effective and cost efficient responses can be made to often sudden and large changes in local housing markets and demographics. Specific examples to consider are:

a) Raising the FMRs to the 50th percentile nationwide, and granting housing authorities wide latitude in setting payment standards would allow prompt local response to market and population shifts.

b) Measure the impact of current policies and recent changes by monitoring the program and market performance (utilization, housing search results, rent and HAP trends, vacancy rates, housing cost trends, etc.)

c) HUD should commit to continual program improvement via ongoing industry discussions and negotiated development of regulations.

d) Ensure that regulations and performance standards promote desired outcomes, and do not create new problems due to their interaction with other regulations or dynamics, such as the forecasted over-leasing problems that may result as housing agencies work to insure 100% utilization.

e) Test creating a new biennial or multi-year "revolving fund" for incremental vouchers that would be drained by lease-up and replenished by appropriations. Because of the inadequacies of the current central reserve and the only one-month project reserves maintained by housing agencies, access to additional resources is needed to maintain housing assistance for over-leased participants.

Creating such a revolving fund may take Congressional action to amend any prohibiting laws regarding housing appropriations, but this solution would also provide a mechanism to solve one of the structural causes for Section 8 funding recaptures. Because new voucher appropriations are for twelve months, but their availability to housing authorities for lease-up is delayed by the awarding process, some funding goes unutilized.

After working with the industry to establish reasonable over-leasing constraints, HUD would use the new "revolving fund" to:

- Immediately fund those housing agencies with end-of-year over-leasing for a sufficient period of time to allow the agency to return to allocated levels, and then
- Use the revolving funds to award incremental vouchers to eligible agencies.

For the Project-based program, the goal would be to increase efficient and effective leveraging by allowing increased coordination of project-based vouchers with Low Income Housing Tax Credits (LIHTC), HOME funds, and other funding sources to increase development, asset management and revenue diversification by:

- Allowing housing authorities to attach at least 25% of their allocated tenant-based vouchers to the development, rehabilitation or preservation of housing structures as "Project-based vouchers", and exceed 25% with HUD approval.
- Removing the limitation of project-based assistance to low-poverty census tracts. This is especially important for older, built-out cities with housing crises. Their need for flexibility argues for allowing housing authorities to decide on locations for project-based assistance in coordination with the goals of the jurisdiction's Consolidated Plan.
- Continuing to provide project-based assistance as long as the property continues to provide decent and affordable housing to eligible households, and
- Not limiting the number of units that can be assisted in a building.

2. What do you consider to be among the most significant barriers to increased participation in the Section 8 Rental Assistance Voucher Program?

In Los Angeles, it's the market. We need to dramatically increase the supply of affordable housing, and in the meantime, we need significant annual increases in our voucher allocations.

- There are more than 70,000 households on our Section 8 waitlist, and more than 4000 families register each month.
- The current vacancy rate in Los Angeles is 3.5% (higher than the near 2% for the 2000-2002 period.)
- Over the last five years, the inflation rate has run at 2% to 3% per year.
- We wish Los Angeles were only experiencing the national average in that NAHRO describes between a 12% increase in the CPI and a 25% increase in housing costs. In Los Angeles, we've had similar inflation, but housing costs have had double digit increases per year.

Section 8 is designed to be a market-based and market driven program. Its performance and costs are thus defined by the two key local market components:

- the supply, cost, and availability of housing units, and
- the income, needs, and numbers of people competing for that housing supply.

Any regulation that facilitates local flexibility and change in keeping with changes in this dynamic increases program effectiveness and efficiency. Every condition and regulation that delays or prevents local response to local needs and costs reduces program effectiveness and efficiency.
For example: Current SEMAP rules require calculating lease-up rates on the basis of the number of allocated vouchers a housing agency has, without differentiating between previous and new allocations. The timing of awarding of new allocations versus the SEMAP reporting schedule does not allow sufficient time for a housing agency to complete the interviewing, eligibility determination, voucher issuance, counseling, search for an eligible units, unit inspection, contract negotiation, and move-in steps necessary to utilize new vouchers. The larger the new allocation and the tighter the housing market, the longer completing this process takes.

3. What would be the advantages or disadvantages of state, local, or regional administration of the Section 8 program?

Housing markets and population trends may seem simple and similar from a distance, and thus appropriate for broad new solutions, but the realities of both are a host of complexities that keep thousands of private and public sector analysts, professionals, academicians, and organizations fully employed, continually busy, and frequently disagreeing.

As the saying goes, with housing only three things matter: location, location, location. As described more fully in our written testimony, local program administration over the last nearly 30 years has allowed housing authorities such as ours to build the wide base of knowledge, relationships, credibility, and partnerships needed for program success:

- Knowledge of the conditions, diversity, dynamics, and trends of local markets,
- Relationships and credibility with local owners necessary to encourage and sustain their voluntary participation in the program, and

- Partnerships with local agencies and nonprofits to meet the housing related needs of participants, and for longer-term impacts, to
- Build the networks to provide the services that position participants to make the right choices to move to self-sufficiency in order to reduce future program costs.

State administration not only does not insure any of the above, it by definition increases the cost of the program by another layer of administrative staffing costs, another layer of administrative decision-making costs, another layer that generates regulations and their costs, and thus another layer delaying or impeding market responsiveness.

As described in greater depth in our testimony, the history of devolving programs from the federal level to the state and local level is predictive of a worsening of Los Angeles' severe housing crisis.

- American cities continually decry the failure of CDBG to keep pace with growing needs and inflation.
- Canada's HANF-like devolution to the provinces resulted in both the federal and provincial governments reducing their commitment to provide housing funding.
- Moving to HANF now is further complicated in the U.S. by the severe budget difficulties nearly all of the states are experiencing, and foresee as a trend for at least the next few years.

Regionalizing the program offers the likely advantage of reducing the number of entities that HUD would have to monitor and deal with directly. And in some states or areas of states, it may offer some economies of scale in some program functions. However, two points are essential to any consideration of regionalizing:

1. The nation's states, counties, cities, and housing markets are extremely diverse in their economies, populations, circumstances, and needs. For example:
   - If California were a nation, its economy would rank sixth in the world
   - If Los Angeles County were a state, its population would rank ninth in the U.S.
   - If the City of Los Angeles were a state, its population would rank it 27th, behind California and 25 others, and just after Colorado, Kentucky, and South Carolina.

2. The bottom line is that local participants must still receive local service delivery in order to lease from local owners in local housing markets. And the local agency must still have the necessary knowledge, relationships, credibility, and partners to make the program work efficiently and effectively. Disruptions of these required elements can cause huge program failures and cost significant resources to correct.

Thus, a reasonable policy approach as a first step toward cost reduction while avoiding disrupting the very diverse and complex housing markets in the nation may be for Congress to direct HUD to conduct a national study to:

- Examine existing regulations governing the voluntary formation of housing consortium, and their cost implications,
- Examine the experience, challenges, and performance of existing consortiums, including both new costs such formations entail and cost savings they produce.
- Discuss the ongoing study with industry groups to insure all necessary considerations of national and market diversity are addressed.
- Report to Congress for consideration of any next steps.

We would also like to note that while we appreciate HANF proposing to link housing assistance with promoting TANF's efforts to promote independence from welfare dependence, the following is also true:

- The Housing Authority has included integrating self-sufficiency efforts with all its housing programs as part of its mission statement for a decade
- We already work in partnership with the local welfare agency, the Department of Public Social Services (DPSS) on a variety of initiatives
- We already operate a Welfare-to-Work Voucher program in partnership with DPSS and in fact, doubled HUD's allocation for this important effort, by dedicating regular vouchers to the program
- In our Section 8 program: 24% of participants are elderly, 24.8 % are disabled, and 51.2 % are nonelderly, nondisabled families. The current average tenant rents for two to seven bedroom units ranging from $266 to 328 a month indicate a substantial level of income from earnings.

4. What impact does a tight rental market or a soft rental market have on the voucher utilization rate?

Tight rental markets reduce Voucher utilization rates, increase program costs, and increase the stresses on and prolong the suffering of those seeking housing, because:

- It takes longer and is more difficult to find a unit
- More participants completely fail to find a unit
- The housing agency must increase its operating costs by over-issuing vouchers (increasing interview, eligibility, voucher issuance, and counseling costs)
- It becomes more difficult to retain and attract owners as owners can more easily lease to unsubsidized tenants, and thus avoid Voucher rent limits and regulatory burdens.
- The housing agency must increase its housing assistance payments (HAP) through higher voucher payment standards to meet rising rental costs
- The housing agency must increase its research and documentation to receive necessary exceptions and waivers from HUD, and
- Homelessness, overcrowding, domestic violence, school absences, illness, and other health, education, safety, and social problems increase.

5. **It is estimated that administrative costs now account for almost ten percent of the cost of a voucher.**
   What steps can be taken to address the rising cost of the Section 8 program?

There are two prime drivers of rising Section 8 costs, and both impact the housing assistance payment or HAP. One is rising housing costs. The other is declining or more slowly growing incomes. The long-term solution to reduce the gap between incomes and housing costs is to increase the supply of affordable housing while pursuing policies to improve the economic condition of those with lower incomes. The result would be to both reduce the numbers of people who need housing assistance, and to reduce the amount of assistance they require. Higher participant incomes translate to low HAP. Increased housing supply translates to lower housing costs and lower HAP.

Thus the Housing Authority of the City of Los Angeles's integration of services to promote self-sufficiency into all housing programs, and its large established network of partner agencies and nonprofits to assist in providing education, employment, and supportive services to assist participants in achieving self-sufficiency is a key part of the long term solution. But even just this part of the solution takes time. Experienced providers know it takes an average of three job placements before an individual is on the path to lasting employment. If jobs do not pay a living wage, let alone a housing wage, the family is still not self-sufficient even though working full time or more.

In the shorter term, examining current regulations and policies for their costs, responsiveness to local markets, and the degree to which they support efficiently providing decent and affordable housing for low to extremely low income elderly, disabled and struggling families may yield some program savings. This must be undertaken with care and an eye to the extreme diversity of housing markets and needs of participants in order to avoid damaging, although unintended, consequences.

One example of an unnecessary cost is HUD's requirement that housing authorities perform criminal history screenings for the applicants of project-based buildings for any private sector owner who requests them. This cost is more appropriately assigned to the private owner who is using and benefiting from the information.

6. **The 2003 Omnibus Appropriations bill (P.L. 108-7) included a provision that would cap the administrative fees a public housing authority (PHA) can accumulate in its administrative reserve funds.**
   What effect will this cap have?

This will reduce the flexibility of housing agencies to cope with continually changing markets, and reduce the degree and variety of ways in which they can assist their jurisdiction in best meeting local housing needs.

As jurisdictions wrestle each year with developing effective Housing Elements and Consolidated Plans, it becomes increasingly clear that the greatest possible level of local programmatic and financing flexibility is needed to meet the complex, but most basic human need, for shelter.

Please also refer to the answer to the related question #7 below.

7. **During the 107th Congress, several changes were proposed to address the rising cost of the Section 8 program including limiting the administrative fees and other expenses associated with the Section 8 voucher program to no more than ten percent of the rental subsidy paid.**
   In addition, some have proposed restricting the use of funds in the administrative fee reserve to activities related to the provisions of rental assistance under the Section 8 program.
   Do you believe these proposals would help control the cost of the Section 8 program?

By definition, reduced funding will reduce program costs. Last year we estimated that the proposal to reduce the Section 8 administrative fee to 10% of monthly rental subsidy would deprive Los Angeles of at least $4 million in needed housing dedicated funds. As discussed in response to previous questions, the essential need for Los Angeles is more affordable housing, more housing assistance, and more programmatic and financial flexibility to provide housing and housing assistance. At different times, local housing markets and economic conditions offer greater opportunities for some aspects of this effort than others. For example:

- The Housing Bond that California voters passed last year is now providing the opportunity to leverage funds to increase the supply of housing.
- In past years, significant increases in voucher allocations allowed us to increase the supply of housing assistance.
- When Congress was unable to provide sufficient funds for major repairs to public housing units, flexible use of reserves allowed us to keep those units habitable and keep our sites fully occupied, thus addressing both the supply and demand ends of the challenge.
- We have been able to participate in programs to promote self-sufficiency and partner with other agencies in those efforts, and thus reduce the amount of assistance those families needed.

Because housing is so entwined with every other human activity and endeavor, choking off or restricting the flexible use of housing funds is counterproductive to a wide range of other societal goals and programs. Research over the last few years has documented that decent, affordable housing is not only a precondition for progress toward self-sufficiency; it also promotes greater and faster progress toward that goal. The Manpower Demonstration Research Corporation (MDRC) has conducted studies for Congress for three decades on issues impacting poverty, and is currently conducting the Jobs-Plus demonstration and research project to determine the best methods for improving public housing communities and moving residents toward self-sufficiency.

8. What changes, if any, do you think would help make the project-based voucher program more efficient and cost effective?

The goal of any changes must be to increase the supply and variety of habitable and affordable housing by providing more flexibility and incentives for partnering and coordinating to more effectively use scarce housing funds. The current housing cost problems in many areas, and the coming increased demand for subsidized housing for the elderly and frail-elderly, argues for the greatest degree of program and funding flexibility. The nation's supply of housing affordable to low, very low, and extremely low-income households must be significantly increased.

A good first step would be to allow increased coordination of project-based vouchers with Low Income Housing Tax Credits (LIHTC), HOME funds, and other funding sources to increase development, asset management and revenue diversification by:

- Allowing housing authorities to attach at least 25% of their allocated tenant-based vouchers to the development, rehabilitation or preservation of housing structures as "Project-based vouchers", and exceed 25% with HUD approval.
- Not limiting such development to low poverty census tracts, particularly for built out cities with housing crises. Instead, giving housing authorities the authority to decide on locations for project-based assistance, in coordination with the goals of the jurisdiction's Consolidated Plan.
- Continuing to provide project-based assistance as long as the property continues to provide decent and affordable housing to eligible households, and
- Not limiting the number of units that can be assisted in a building.

9. How many PHA's administer only Section 8 vouchers?
Could you provide a list?
(Applicable to the associations representing housing authorities.)

Not applicable.

<u>Questions concerning Housing for Needy Families (HANF)</u>

1. **The HANF proposal would provide states with full flexibility to assist any family that is at or below 80 percent of area median income. How does this proposal contrast with the current law? And, to the extent that the neediest families (at or below 30 percent of area median income) do not benefit from a specific targeting provision, would they be better or worse under HANF?**

While there are some limited exceptions, current Voucher program regulations limit eligibility to very low-income households (at or below 50% of area median income), and requires that 75% of new admissions to the program be extremely low-income (at or below 30% of median income. If this protection were removed, the neediest families would be worse off.

In California, with its nearly statewide housing crisis, an increasingly destructive political battle would ensue. San Francisco already had to confront the problem that teachers could not afford to rent or own in the city. They committed funds to providing a limited supply of subsidized housing for teachers. Per a recent article in <u>The Los Angeles Times</u>, a similar problem exists in Santa Barbara. Highly paid city employees live an hour or two away to own a home. Mid and lower salaried city employees live an hour or two away from Santa Barbara to rent a home. In the mean time, Santa Barbara's population is growing older, service needs are increasing, and pollution levels and wear and tear on highways and freeways is increasing.

Just these two examples make clear the likelihood of destructive inter-income group and inter-jurisdictional battles for already inadequate housing funds for an already inadequate and increasingly unaffordable housing supply. The neediest families, and poorest elderly and disabled individuals are already devalued in our competitive society. They are also less able to protect their interests. They obviously have fewer financial resources, and often are less empowered, less connected, and less physically able to compete effectively. At best, they would face constant challenges to their supply of housing assistance. At worst, they would see significant diversion. Increased homeless, and its attendant consequences for the homelessness and communities would ensue.

If there are states that have so few very and extremely low-income families that they can move housing assistance up the economic ladder, then responsible national policy would be to reallocate their housing assistance to those states that do need it for those populations until all states share in that good fortune.

2. **Under current law, a PHA is allowed to attach up to 20% of its voucher assistance funds to specific housing units as project-based vouchers. Under the project-based voucher program, a PHA enters into an assistance contract with the owner for specified units and for a specified term.**

How many project-based vouchers are currently in existence?

Although this question appears directed to national public and private housing industry organizations, the Housing Authority of the City of Los Angeles administers 1,345 Section 8 Special Program project-based vouchers.

Additionally, the Housing Authority:

- Administers 44 Housing Opportunities for People With AIDS (HOPWA) project-based assistance,
- Monitors the administration of 3,371 Section 8 New Construction vouchers, and
- One of our nonprofit corporations, the Los Angeles LOMOD Corporation, was selected by HUD as Contract Administrator for the more than 48,500 units in more than 800 Section 8-assisted projects in ten Southern California counties: Kern, Imperial, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Luis Obispo, Santa Barbara, and Ventura. We are now working with HUD to insure a successful transition. Under a performance-based contract with HUD, LOMOD will handle on-site management reviews and tenant concerns, renew expiring contracts, and make payments to owners.

3. How do you envision the project-based program working under the new HANF block grant proposal?

Because past is often prologue, we envision a general growing gap between the need for housing assistance and the amount of housing assistance funding provided via HANF. This could not only result in fewer new project-based housing units being constructed, it could also accelerate the loss of existing project-based units. With less housing assistance, housing agencies would be less able to offer enhanced vouchers, or take other measures to prevent or compensate for owners who chose to opt-out of their project-based contracts.

Los Angeles's existing housing shortage, high housing costs, built-out city, and existing population and poverty rate, and the current $32 billion dollar state budget shortfall, do not foretell any reduction in the need for affordable housing programs.

4. What types of program protections for voucher recipients should be included as part of the Administration's HANF proposal?

Because the key protection for the poor is the stabilizing security of decent and affordable housing, the best protection that they can receive is the continued full faith commitment of the federal government to provide housing assistance according to the actual funding needs of localities, e.g. reflects the true gap between incomes and housing costs. It is also important to acknowledge that a significant segment of the population, whether due to age, disability, low earning ability, or other distresses, has a virtual lifetime need for housing assistance. Delaying until 2010, transition to a program that is likely to be under-funded in terms of existing or growing need, is better than instantly transitioning them, but would still be harmful.

One of the ironies of the HANF proposal is its focus on reducing the cost of providing Section 8 assistance, yet containing provisions that would increase program operation costs. The added layer of State administration is one such added cost. The well intentioned provision to provide those currently in the voucher program with the security of continuing to be assisted under voucher regulations is another.

With lease-up rates increasingly near or over 100%, initially under HANF all participants would still be served under Voucher program rules. Gradually, as they left the program, the new, "lower cost" HANF rules would apply to new admissions. However, now HUD, the states, and housing agencies would have the costs of administering, reporting, and monitoring two different programs. In addition, since word would quickly spread that housing assistance was less reliably available, cautious participants may think twice before leaving the voucher program.
Thus the greatest protection for existing, and future, participants would be to not transition to HANF.

5. **The current Section 8 voucher program has been used as a tool to promote housing development or homeownership.**
   Critics of the new HANF program allege that it will become less useful as a tool to promote housing development and homeownership because lenders will hesitate to rely on voucher funding.
   Please explain if you believe this will or will not be the case.

As described in previous answers, the key for Los Angeles is more housing, more funding for housing and housing assistance, and more programmatic and financial flexibility. In addition, the extremely high home prices in Los Angeles and the widening gap between home prices and incomes, homeownership programs, while very worthy, will either be limited in the number of people served, or extraordinarily expensive.

To make our Section 8 homeownership work in the challenging Los Angeles, the Housing Authority actively developed the needed partners and enlisted their resources to provide the multiple sources and layers of financing needed for program success.

Since the first thing financial markets demand is predictability, and HANF's weakened commitment to housing funding has been widely seen and discussed in both the private and public sectors already, it is unlikely the private sector would be willing to commit any significant funds without first demanding extra payment as insurance against future expected losses. A representative of the National Mortgage Bankers Association was one of the first to state concern and opposition to HANF.

6. **The introduced bills authorize the appropriation of "such sums as may be necessary."**
The legislation includes no specific method to increase funding to reflect inflation or increases in housing costs.
How would inflation and increases in housing costs be addressed through the new HANF program?

Private and public sector organizations have viewed this to mean a weakened, unpredictable, unreliable and probably diminishing commitment to funding. The private sector will not enter deals based on such uncertainty unless it receives extra funds to compensate it for its extra risk.

While we appreciate HUD's statements that HUD is committed to providing full funding for vouchers under contract, this is insufficient security for the private sector. Housing authorities have had a long and frequently unpleasant history of unstable funding for public housing. The HANF proposal, and other recent changes to the Section 8 program indicate that the problematic state of funding for public housing now applies to Section 8.

For example: The HANF bills direct HUD to establish a formula that would adjust funding based on housing costs, general inflation, and other appropriate factors. Congress members are well aware of the contentious debates regarding the formula to calculate the public housing Operating Subsidy Fund. That formula has fallen far short of covering all program needs for decades, and applies to a program that is not housing market-based, but is only affected by market movements in insurance, energy, and other standard costs for operating housing, plus any mandates from Congress or HUD. Then, in addition to chronic industry complaints that the Operating Subsidy formula is inadequate, HUD miscalculated the amount of Operating Subsidy needed for FY 2002. Congress was forced to reduce funding in FY 2003 to make up the 2002 shortfall.

Now imagine, applying one formula, no matter how brilliantly devised, to the entire universe of the nation's extremely different and constantly changing housing markets. And imagine the response of private owners to sudden shortfalls, and their discussions among themselves. Then, imagine how willing a new owner would be to participate in the HANF program. Now, imagine you have a HANF voucher holder and trying to rent a unit from an owner who has had this experience or heard these discussions.

7. **What are the current statutory and regulatory requirements regarding tenant and resident participation at the local and state levels?**
Do these requirements change in the HANF proposal?

State law currently requires a housing authority to have resident members on its Board of Commissioners, to post the schedule and agendas for Board meetings on in its central and site management offices, and to distribute them to resident organizations.

HUD has several regulations for housing authorities mandating and governing resident participation in the Section 8 and public housing programs in such areas as program administration, planning and policy development, and preparing and updating the Agency Plan. There are also regulations concerning the formation, governance and funding for Resident Advisory Councils, Resident Management Corporations, Resident Advisory Boards, and the Board for Homeless programs.

The Housing Authority of the City of Los Angeles has long supported residents in forming and operating effective resident groups. We hold a very large number of meetings in numerous locations to insure full participation of public housing and Section 8 participants in developing our Agency plan and other matters.

From our initial Section 8 Advisory Council (SEAC), the Housing Authority moved to create the Joint Advisory Neighborhood Empowerment initiative, with the acronym "JANE". JANE divided the SEAC Council into seven geographic districts to improve participant access to meetings. The City of Los Angeles is following a similar path with the establishment of the new system of Neighborhood Councils.

The first Agency Plan meetings are with each JANE district to allow ample opportunity for comments, suggestions, and discussion. Then a follow-up meeting is held with all the districts to present the Draft Agency Plan so that they can review it before providing comments at the next meeting, which is a formal public comment hearing. The seven districts are: North Valley, South Valley, West Los Angeles, Central, East Los Angeles, South Los Angeles, and Harbor Districts. Numerous participants have made positive and appreciative comments about JANE, which has the following published goals:

- Encourage Section 8 tenants to take active roles in giving feedback to the Housing Authority and in problem resolution
- Improve communication between tenants and the Housing Authority
- Comply with HUD rules, including the Quality Housing and Work Responsibility Act of 1998
- Encourage tenants to work together for positive change
- Create and build knowledge about Section 8 programs, policies, and procedures
- Enable Section 8 tenants to organize and communicate directly with officials.

Testimony of Leona P. Thompson
Eligibility Interviewer of the Housing Authority of the City of Los Angeles
Before the
Subcommittee on Housing and Community Opportunity
House Committee on Financial Services
July 1, 2003

Good Morning Committee Members,

I am very honored to stand before you today and thank you for this wonderful opportunity to share my personal testimony of how my life was transformed by the Section 8 Housing Assistance Program and the Family Self-Sufficiency Program. As a recipient of these programs I stand before you today as a self-sufficient individual raising two sons in the heart of a very prominent Los Angeles community and helping others to achieve a level of independence that they possibly never imagined could exist.

After separating from my children's father due to unfavorable circumstances, I had to step out on a faith that would propel me into a better way of living and economic security. Not knowing which way to go, nor did my pride allow me to turn to relatives, I ventured out into the deep...with nowhere to go, only a prayer of restoration would be my only consolation.

A dear friend availed herself to me, allowing me to move in with nothing as she and her two children struggled as well. We shared a comfortable, safe and secure place to live, hearty meals and transportation. I became a welfare recipient and fully utilized each opportunity presented to me to make a better life for my children.

My friend told me about a program she was participating in called G.A.P. This program like GAIN provided child care assistance, bus fare, money for books and school supplies just to name a few. With only a high school education and some college, I knew that this would be an excellent opportunity to sharpen my job skills and choose a professional career path that would lead to economic independence. Shortly after enrolling in the G.A.P. program, the Northridge earthquake rocked Los Angeles. Due to the extreme damage of the building that I lived in, I was able to receive an emergency Section 8 voucher. I finally was on the road to self-sufficiency. With the housing assistance payment program I began to have extra money to save and do extra-curricular activities with my children that was almost impossible to do prior.

I was informed about a new program that the Housing Authority was offering to clients who wanted to set further goals for themselves and graduate from all public assistance programs to become totally self-sufficient and homeowners. This program was the Family Self-Sufficiency Program. After mastering many office skills through vocational training I was able to secure better job positions and higher pay. By leaps and bounds I transcended from extremely low-income to well above the average low-income household. Within 1 year of participating in this program I surpassed the income limit to participate and financially succeeded in stabilizing my family's future. I began to set aside money to purchase our 1st home. I received a check from the account that had been set up for me while in the Family Self-Sufficiency program. This was derived from the gradual increase in personal earnings. To date I am in the process of purchasing a new home and owe a great deal of thanks and appreciation to the Housing Authority of the City of Los Angeles Section 8 program and Family Self-Sufficiency program for providing the resources and information, savings account and self-empowerment to rise above the elements that keep so many people in economic bondage.

My Accomplishments since 1994 are:

- Certified Medical Assistant (1994 – 1995)
- Certified Nurse Assistant (1995)
- Completed G.A.P program
- Successfully completed job trainings in medical front office, patient relations, and sales
- Secured enrollment for my sons to attend College Preparatory schools
- Eligibility Interviewer for the Housing Authority of the City of Los Angeles (2001 – present)
- Enrolled in PACE program at West Los Angeles College

I thank God everyday for where he has brought me and I am happy and content with who I've become and I plan to continue to help others who wish to step outside of the perimeters of substandard living to well above average living.

Thank you for affording me this great opportunity to share my testimony. Thank You Housing Authority of the City of Los Angeles.

LAWRENCE TRIESCH, ASSISTANT DEPUTY DIRECTOR
HOUSING AUTHORITY OF THE CITY OF LONG BEACH
THE HOUSE SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY
JULY 1, 2003

I, Lawrence Triesch, Assistant Deputy Director of the Housing Authority of the City of Long Beach (HACLB) welcome this opportunity to testify before you today to discuss the Housing Choice Voucher (HCV) program. Long Beach, which is the fifth largest city in California is a seaside community of nearly a half million people nestled in the southeast corner of Los Angeles County. Our population is diverse with over 45 different languages spoken in our city schools.

The need for housing assistance in the City of Long Beach is great. According to the 2000 census, over 25,000 of the City's 163,000 households are considered to be extremely low income as defined by HUD (income at $16,900 or less for a family of four). Although the Housing Authority now serves over 6,000 of these households, and others are served through privately owned subsidized units, there are still thousands of families who do not have access to adequate affordable housing. This program which is an integral part of the City of Long Beach's affordable housing strategy not only provides rental subsidies to over 6,000 very low income families, we also have a Family Self Sufficiency program with over 1,100 participants, a HOPWA program serving families living with Aids, Shelter Plus Care program for the disabled and a Section 8 Homeownership program. HACLB is currently a high performer under the Section 8 Management Assessment Program (SEMAP) and consistently maintains a 99-100% voucher utilization rate.

Recent Economic downturns in our area have exacerbated the need for more affordable housing. The closing of the Long Beach Naval Shipyard and the downsizing of aerospace giants such as Boeing have caused a tremendous drain on the stability of many families in our area. With incomes as low as they are for so many families, and rental costs at record highs, thousands of families are paying an amount for rent that allows them almost nothing to live on. While still others are living in overcrowded conditions in our central city area.

The Housing Choice Voucher program provides help to these families. However, reforms such as Bill HR1841 or "HANF" with its provision of providing funds thru black grants to the states may constrict these efforts. Our current waiting list has over 14,000 applicants with a large percentage being elderly and disabled families. It has been estimated that it will take 5-6 years to reach the majority of these applicants with our current funding levels.

HUD proposes to convert this successful program to a state-administered Block grant program in which future funding levels will not be tied to specific units and actual costs. This conversion will result in a lack of local control, input and responsiveness to local market conditions and will add a new and costly layer of bureaucracy between the Federal government and public housing agencies. Since future funding levels will not be tied to specific units and actual costs, there is a serious risk that funding will not keep pace with the rising cost of rental housing, resulting in:

- Reduction of the number of families served.
- The portion of rent paid by each family would be increased, decreasing affordability.
- 42 of the 50 states according to NAHRO Report would experience funding shortfalls under "HANF" over the next five years.
- NAHRO's analysis also showed that HANF's proposed 10 percent cap on administration fees would cut state administrative fees by nearly 13 percent, undermining their ability to delivery services.

How do we move forward with a more effective, fiscally responsible program that preserves our scarce resources of affordable housing? I suggest we move forward with those who best know the diverse rental markets across our state, the Public Housing Authorities (PHA).

The Public Housing Authorities can more readily monitor rental trends in their areas, establish working relationships with partners in the housing industry (such as apartment associations, governmental entities, realtors, property management associations and other non-profit entities) assist our clients in over coming barriers to using their Housing Choice Vouchers.

To address these local barriers to housing, empower the housing authorities by striping away unnecessary requirements and regulations that are not central to the program's fundamental mission; this can be done without block granting the program to the states.

For instance in Long Beach we have partnered with "On Your Feet" (a non-profit organization) to assist our clients in locating and securing affordable housing units and expanding the amount of time initially given to a Housing Choice Voucher holder. This has improved our lease up rate to 100% even in a low vacancy rate coastal city with record high rents.

Improving owner participation in the program is a major key to success. We have established an outreach program to regularly communicate with property owners regarding the program regulations and good property management practices. We also hold forums periodically for discussions on how to provide better working relationships with the ownership community. However, we find in our area that as the supply of affordable housing shrinks, owners are increasingly unwilling to accept Housing Choice Vouchers. The number one complaint we hear is that the regulatory burdens associated with the program, especially regulations not normally present in market rate housing, deters them from participation in the Housing Choice Voucher program. Flexibility to adjust to these market pressures is necessary.

We have recognized that affordable housing issues are widely varied thru out the state and will call for fresh and unique local approaches for resolution. Block Granting the program to the states is not the answer, it does not address this issue. Those most knowledgeable about the housing markets in their areas and the partners available to assist in these markets hold the key to success of the program with the improved Financial Monitoring recently implemented by HUD.

In conclusion, a review and overhaul of the regulatory requirements for the program can and should provide the efficient use of funds and services for the clients, the owners, the Public Housing Authorities and HUD.

I appreciate the opportunity to share my viewpoints for improving the program and I am ready to assist with the implementation of changes toward that effort.

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AUG-13-2003 09:29

GOVERNOR GRAY DAVIS

June 27, 2003

Honorable Robert W. Ney, Chairman
Subcommittee on Housing and Community Opportunity
US House of Representatives
2438 Rayburn House Office Building
Washington, DC 20515

Honorable Maxine Waters, Ranking Member
Subcommittee on Housing and Community Opportunity
US House of Representatives
2344 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Ney and Ranking Member Waters:

I am writing to express my serious concerns about the "Housing Assistance for Needy Families Act of 2003" (H.R. 1841), also known as HANF, which would restructure the federal Housing Choice Voucher (Section 8) program. In California, Section 8 vouchers are a key component of our efforts to meet the housing needs of our state's low-income families. The vouchers serve approximately 248,000 families, most of whom are extremely low-income.

The State of California has a long and successful history in the delivery of diverse housing programs. These programs range from loans and grants for development of rental housing, to funding for homeless shelters, to assistance for migrant farm worker housing, to loans to first-time homebuyers. My administration has appropriated more than $500 million for affordable housing and our voters approved a $2.1 billion affordable housing bond, the largest state housing bond in the nation's history.

In addition, the state also successfully administers a number of federal housing programs including the HOME Program, the Community Development Block Grant Program, the Emergency Shelter Grant Program, the Housing Opportunities for People with AIDS program, and the Low-Income Housing Tax Credit Program. I believe this partnership with the federal government is a crucial component in helping to address the housing needs of California's citizens.

STATE CAPITOL · SACRAMENTO, CALIFORNIA 95814 · (916) 445-2841

09/03/03 WED 11:17 FAX 202 225 5557 FINANCIAL SERVICES CMTE 003
AUG-13-2003 09:29

The Honorable Robert W. Ney
The Honorable Maxine Waters
June 27, 2003
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While I believe the state should continue to play a leadership role, I am concerned that several provisions in the HANF legislation appear to weaken this important federal-state partnership. HANF would eliminate the existing commitment to fully fund authorized vouchers and accommodate increased federal renewal costs. I believe it is crucial for Congress to authorize mandatory voucher spending commensurate with the number of currently authorized vouchers. Only through mandatory funding can the people of California be certain that the federal government will maintain its commitment to Section 8.

Authorizing legislation also must stipulate that funds will be adjusted annually to cover increases in housing costs. HANF would require states to continue serving the same number of voucher holders for the first five years without any guarantee of adequate increases in funding. If Congress level-funds HANF or only increases HANF funding by the Consumer Price Index (CPI), the state would be forced to either serve higher-income families, or require families to contribute more of their income for rent, overburdening those that already face severe economic challenges. These outcomes would have a devastating impact on extremely low-income families in California.

Furthermore, I am concerned that HANF would reduce the availability of incremental Section 8 vouchers for the thousands of families and individuals who need them in California. As Governor, I am committed to reducing homelessness in California. However, unless the commitment to build affordable housing is coupled with new Section 8 vouchers, we will be severely challenged in meeting our goals.

In the light of these potential effects, I urge you to maintain the current funding commitment for Section 8 vouchers and to oppose the "Housing Assistance for Needy Families Act of 2003."

Sincerely,

Gray Davis

GRAY DAVIS

cc: CA Congressional Delegation

HEARING RECORD

City of Los Angeles

CITY HALL
LOS ANGELES, CALIFORNIA 90012

JAMES K. HAHN
MAYOR

July 1, 2003

The Honorable Maxine Waters
United States House of Representatives
2344 Rayburn House Office Building
Washington, DC 20515

Dear Congresswoman Waters:

I write to express my opposition to H.R. 1841 S. 947, "Housing Assistance for Needy Families," that would allocate the Housing Choice Voucher Program (Section 8) to states on a block grant basis and thereby detract from local innovation and community responsiveness.

As you know, at least 600,000 households in the City of Los Angeles have incomes so low they qualify for the Section 8 program. Of these, more than 70,000 families are on the Housing Authority's waiting list, and 4,000 more register each month. To rent an apartment in Los Angeles, where the average rent is $1,299 per month, a family must have full-time employment income of $19.69 per hour.

As Mayor, I have worked to increase the affordable housing stock through a local housing trust fund, preservation programs to preserve units that are affordable, and other initiatives to increase the entire housing stock. Even with these efforts, the vacancy rate for affordable units is just 2%.

Despite these challenges, our Housing Authority effectively manages its Section 8 program with a utilization rate of Housing Choice Vouchers of 99%. It serves more than 43,000 families in the Voucher program, and more than 6,300 additional families in non-Voucher programs. The Authority partners with more than 17,000 private sector landlords, injecting $345 million in housing assistance payments into the local economy each year.

The Honorable Maxine Waters
July 1, 2003
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These housing subsidies are a key ingredient in helping families become economically self-sufficient, but the subsidies must work hand-in-hand with job training, education, and initiatives that mitigate barriers to work. To that end, the Authority partners with dozens of local non-profits, private-sector firms, and other government agencies.

The success that our City has had in dealing with the housing crisis and the success of our Housing Authority is due in large part to local innovation and leadership. The Authority responds quickly to the needs of the people of Los Angeles, and we hold them accountable to be responsive to our constituents. Block-grants will remove that accountability and responsiveness and detract from our most recent momentum in dealing with this crisis. The Housing Authority understands local conditions and finds local solutions. Thank you for your support of the people of the City of Los Angeles.

Very truly yours,

JAMES K. HAHN
Mayor

JKH:sd

Cc: Don Smith
Executive Director, Housing Authority of the City of Los Angeles

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