S. HRG. 108–175

$5.2 BILLION FOR LOW-INCOME SENIOR HOUSING NOT REACHING THE ELDERLY: WHY?

HEARING

BEFORE THE

SPECIAL COMMITTEE ON AGING UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

WASHINGTON, DC

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TUESDAY, JUNE 17, 2003

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, DC.

The committee met, pursuant to notice, at 10:03 a.m., in room SD–608, Dirksen Senate Office Building, Hon. Larry E. Craig, (chairman of the committee) presiding.

Present: Senators Craig and Talent.

OPENING STATEMENT OF SENATOR LARRY E. CRAIG, CHAIRMAN

The CHAIRMAN. Good morning, everyone. We thank you for attending this Senate Special Committee on Aging hearing. In our daily legislative discourse, it is our fiduciary legislative duty to address a variety of issues. On this committee, we have oversight responsibility over all issues affecting our aging citizens. One such issue is housing. Both the ranking member, Senator Breaux, and I are always keenly interested in this. The Senator would be here this morning, but he is on the floor managing another important issue for seniors, and that is the Medicare prescription drug legislation that is currently on the floor of the Senate. So he will not be able to be in attendance this morning.

In meeting our oversight obligation, we are charged to exercise constructive reviews and critiques of the Federal programs we have created. Today we exercise that constitutional responsibility and examine the bureaucratic administration by the Department of Housing and Urban Development and the meritorious and needed Section 202, Supportive Housing for the Elderly program.

The most widespread and urgent housing problem facing elderly households today is affordability. About 3.3 million elderly rental households in the United States have very low incomes, which HUD defines as 50 percent or less of the area median income. The Section 202 program provides two types of financial support. The first type of funding provides capital advances grants to nonprofit organizations to purchase land and construct affordable rental housing exclusively for these households. The second type of funding, which interplays with the first type, is monthly support in the form of rental assistance payments that defray some of the operating expenses.

However, due to a myriad of HUD requirements in the application process, coupled with chronic and oftentimes insensitive bureaucratic delays by HUD in the processing of grant applications and monetary commitments, the nonprofits are placed in untenable economic positions. Today we will listen to their litany of concerns.

We will examine what I call the bureaucratic treatment of nonprofit organizations in the application process conducted by the Department of Housing and Urban Development which has caused the Section 202 program's overall balance of unexpended appropriations by the end of fiscal year 2002 to total $5.2 billion. These unexpended funds in the only Federal program devoted exclusively to providing the type of most needed affordable housing for the elderly represent nearly 86,339 housing units in 1,936 projects affecting needy seniors.

We will also focus on the findings of the General Accounting Office report on elderly housing provided by the Department of Housing and Urban Development through the Section 202 program. These findings will detail the administrative and planning problems encountered by the nonprofit associations who utilize the funding of these programs and GAO's recommendations for improvements.

We will hear testimony today from two panels of witnesses. Our first witness is John C. Weicher, Assistant Secretary, Housing/Federal Housing Commission, Department of Housing and Urban Development.

On our second panel of witnesses, we will be joined by David Wood, Director, Financial Markets and Community Investment, General Accounting Office; as well as Ms. Cynthia Robin Keller of Volunteers of America; Mr. Tom Herlihy of the National Church Residences; and Ms. Lee Ann Hubanks of Plano Community Housing, representing the umbrella association of American Association of Homes and Services for the Aging.

I want to thank all of our witnesses beforehand for being here today. This is a most important inquiry, and I look forward to hearing your respective testimonies and exploring ways to provide better, affordable, more timely access to this money that ultimately produces the kind of housing that so many of our seniors need.

So, with that, I turn to our first panelist, Dr. John C. Weicher, Assistant Secretary, Housing/Federal Housing Commission, Department of Housing and Urban Development. Doctor, welcome to the committee this morning. We look forward to your testimony.

STATEMENT OF JOHN C. WEICHER, ASSISTANT SECRETARY, HOUSING/FEDERAL HOUSING COMMISSION, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, WASHINGTON, DC

Mr. WEICHER. Thank you, Mr. Chairman, and thank you on behalf of Secretary Martinez for inviting the Department to testify on the subject of the Section 202 Supportive Housing Services program. We are happy to discuss the program in the context of the findings and recommendations in the recent GAO report.

I would like to start with the issue of timely processing, the pipeline problem. Section 202 has been frequently criticized because it takes too long to close projects after they are funded. Secretary

Martinez has made it a priority to clear out the pipeline. Shortly after I became Assistant Secretary for Housing in the summer of 2001, the Office of Housing compiled a list of projects that had been in the pipeline for at least four years, double the processing period permitted under our regulations. These projects had been approved in fiscal year 1997 or earlier. I asked our staff to determine the status of each one. We learned that many had already been processed through initial closing and many others had been canceled. Having determined which projects really were in the pipeline, we then made it a priority to bring those projects to closing.

I am pleased to say that we have cut the aged pipeline from 48 projects to just 7, and we expect to close 6 of them during the remaining quarter of this fiscal year. Those are certainly the hardest projects to close. They have site problems or litigation, and as time goes by, the costs rise.

We have funded 977 projects that were approved between fiscal years 1992 and 1997. More than 99 percent of those projects have been completed.

For the period from 1998 to 2000, the years that were the focus of the GAO report, we have closed 84 percent of those projects, 409 out of 489. At the time of the GAO report, in December, we had only closed out 74 percent. We have cut the number that had not been closed from 127 last December to 80 at the end of last month.

While cleaning out the pipeline, we have not neglected the timely closing of recently funded projects. In the past, HUD typically closed between 50 and 55 percent of projects within two years. For projects funded in fiscal year 2000, we closed 60 percent. I am pleased to be able to say that two weeks ago I attended the grand opening of a Section 202 project that was funded in fiscal year 2001, Denali View in Chugiak, AK. This project was funded in September 2001 and is open and fully occupied in June 2003. It is a beautiful project, and you can indeed see Denali, see Mount McKinley, from their front door.

The GAO report discusses the unexpended balances in this program, and the committee is focused on that issue. GAO observed that only a small part of the unexpended funds, about 14 percent, about $700 million, are associated with pipeline projects that have exceeded HUD's processing time guideline. This is an indication of the progress we have made in clearing out the pipeline.

As GAO reports, almost half of the $5.2 billion in unexpended balances consists of PRAC balances for projects that have been completed and are now occupied. That money is being spent year by year as Congress intended. For those projects awarded between 1991 and 1994, the unexpended balances are the remaining years of the original 20-year PRAC. For those projects awarded in later years, the unexpended balances are the remaining years on the original 5-year PRAC. These PRACs amount to $2.5 billion.

Another quarter of the unexpended balances, $1.3 billion, consists of the funds Congress appropriated in fiscal years 2001 and 2002. These projects are still within the original schedule for reaching timely initial closing. We anticipate that most of them will come to initial closing on a timely basis. The remainder is money for projects which have started construction but have not yet been completed. That category amounts to about $700 million.

We will continue to work to bring projects to closing and to occupancy and in the process to further reduce our unexpended balances on projects that have not yet been completed.

In its report, GAO made recommendations to the Department to improve the administration of the program. Overall, the Department concurs with the recommendations, and we have taken steps to implement them.

GAO recommended that we evaluate the effectiveness of the current methods for calculating capital advances. We have begun to examine how Section 202 development cost limits compare with other objective indicators of local construction costs, and we anticipate this evaluation will be completed next year.

GAO recommended that we make the necessary changes to our cost calculation methods based on this evaluation so that capital advances adequately cover the development costs. The Department will be discussing this recommendation with Section 202 program stakeholders this summer, and we will complete the evaluation prior to making any changes in the current methods.

GAO recommended that we provide regular training to ensure that all field office staff are knowledgeable and are held accountable for adhering to current processing procedures. During fiscal year 2002, the Department provided training to field staff for the first time in 10 years. Subject only to resource limitations, we are committed to continuing to implement an effective training program. Our next training will include technical processing training for field staff to assure that there is consistent processing nationwide.

GAO recommended that we update our handbook to reflect current processing procedures. We have initiated the process of consolidating and updating the Section 202 program handbooks. We hope to complete this process by the end of fiscal year 2004, and that will allow the Department to incorporate any changes to the program that are a result of the meeting with the 202 stakeholders and the completion of the cost limits study.

GAO recommended that we improve the accuracy and completeness of information entered in the Development Application Processing system by field office staff and expand the system's capabilities to track key processing stages. During fiscal year 2002, there was an intensive effort to verify the accuracy of the information in the system, and the Department is committed to expanding its capabilities.

In addition, the Department has taken other steps to improve our program delivery. We have strengthened the structure of the program by tightening the selection criteria for new projects. I describe these changes in detail in my prepared statement. We have drafted regulations to implement the mixed finance provisions of the American Homeownership and Economic Opportunity Act of 2000. These regulations are now being reviewed at OMB.

We have issued a notice to implement other provisions of the American Homeownership and Economic Opportunity Act of 2000, permitting existing Section 202 loan projects to refinance their mortgages, a priority for both the Department and the stakeholders. These procedures were announced last summer.

Of course, we have established a management plan goal focusing on the reduction and elimination of the aged pipeline.

I want to assure the committee, I want to assure you, Mr. Chairman, that the Administration and the Department are committed to the ongoing viability of the Section 202 program, and we are committed to working with you, with the nonprofit organizations that sponsor these projects, and with the elderly persons who need these apartments to make sure that Section 202 remains a successful program and a viable housing resource for the elderly.

Thank you, and I will be glad to answer your questions.

[The prepared statement of Mr. Weicher follows:]

STATEMENT OF DR. JOHN WEICHER
ASSISTANT SECRETARY & FHA COMMISSIONER
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

BEFORE THE
UNITED STATES SENATE
COMMITTEE ON AGING

JUNE 17, 2003

Chairman Craig, Ranking Member Breaux, distinguished members of the Special Committee, on behalf of Secretary Mel Martinez, thank you for inviting the Department to testify on the subject of the Section 202 Supportive Housing Services program.

You have asked the Department to discuss specifically its views on the viability and need of the Section 202 Housing Program, the need for improvement in administrative performance and the processing of applications and the timely distribution of funding commitments. You also requested that the Department discuss its views on the recent General Accounting Office's (GAO's) report and specifically on GAO's recommendations for improvement in the administration of the program.

The Department is especially appreciative of your concerns as raised through the GAO review of this program. As with any program that has been in existence for a long period of time, there is always a need to re-evaluate the program's performance and to institute changes that will improve that performance. I am pleased to let you know that the Department, with the assistance of the GAO Report, has identified issues concerning the implementation of the funding and development processes and is instituting measures that will improve the Section 202 program.

Overview of the Section 202 Program

The Section 202 program provides an important resource to address the housing needs of one of the nation's most vulnerable populations, the low- to very-low income elderly. Along with the Low-income Housing Tax Credit, the HOME block grant, and Section 8 housing assistance, the Section 202 program makes a significant contribution to addressing these needs by providing affordable housing units, many with supportive services. Since the inception of the Section 202 program, established by the Housing Act of 1959, there have been over 350,000 units funded and the program has undergone at least two significant changes since that time. It has gone from a low-interest rate loan program without rental subsidy in 1959, to a loan program with project-based Section 8 rental assistance in 1974, and to its current operation as a capital advance program with project rental assistance in 1991. Under the current program, the capital advance is provided without interest and does not have to be paid back as long as the housing remains available for the intended population for forty years. Projects developed under the current program either provide or will provide supportive services dependent upon the service needs of the residents.

The Section 202 program provides an affordable and secure environment for the nation's low- to very low-income elderly. Based on the funding appropriated each year, more than 6,000 new units of Section 202 housing units are approved. These housing units, which are sponsored by nonprofit organizations, many of whom are faith-based organizations, have a history of serving the elderly, and they are committed to meeting the needs of this very vulnerable segment of the population for the 40-year term of the project and beyond.

GAO Report

The GAO Report reflects an excellent understanding of the importance of the Section 202 Supportive Housing Program in the delivery of affordable housing to very-low income elderly households. One of GAO's observations in the report, which further supported our belief, is that only a relatively small part of the unexpended funds, about 14 percent, are associated with pipeline projects that have exceeded HUD's 18-month processing time guideline. The report also verifies that the number of projects scheduled to reach construction start will double in the next six months, suggesting that the remaining projects represent an even smaller share of the unexpended balances, approximately 7 percent. The Department does not question the conclusions in the Report since they provide an indication of the progress we have made in reducing the Section 202 pipeline since 2001.

In a report prepared for GAO in early fiscal year 2002, the Department identified 118 Section 202 pipeline projects that had exceeded HUD's current processing time guidelines. As one might expect, these projects had some of the toughest issues that developers must address, such as environmental problems, funding shortfalls, litigation and contractor/staffing issues. Despite that, only seven Section 202 projects remain in the pipeline that were funded in 1997 or earlier. The Department is committed to closing these projects as soon as possible. We noted very early in our analysis of the aged pipeline that there are certain parts of the country where Section 202 closings rarely occur in 24 months. The GAO study noted this and early studies have also noted this. This project is located in one of those areas. When we meet with our stakeholders later this year we will discuss this issue and the current 18 and 24-month policy to get their input as we consider changes to the Section 202 program.

The Department certainly recognizes the importance of timely processing of applications for the Section 202 program and the Secretary has made it a priority. We believe substantial improvement has been made since the end of FY 2000, the concluding date for the analysis in the GAO Report. Due to increased Headquarters' monitoring, the number of projects reaching construction start within 24 months has increased by 10 percent. In addition, late in the last fiscal year, for the first time in 10 years, training on the processing of Section 202 applications through the development phase was provided for our field staff.

The Department has been aware for almost two years that in some areas of the country capital advances may be insufficient to cover the cost of developing Section 202 projects. If sponsors have to seek additional funds from other sources, the development time will be lengthened. We have initiated steps to examine how HUD's Section 202 development cost limits compare with other objectively measurable indicators of local construction costs. However, if the allowable per unit cost limitations were increased as a result of that review, there would be a reduction in the number of Section 202 units built. In addition, the successful partnerships that have been developed with states, localities and other interested parties over time to provide additional resources would be affected. This is one of the issues we will explore with stakeholders of the Section 202 program early this summer.

In its recent report, GAO made recommendations to the Department to improve the administration of the program. Overall, the Department concurs with the recommendations and has the following specific comments:

- GAO recommended that the Department evaluate the effectiveness of the current methods for calculating capital advances. HUD has initiated steps to examine how HUD's Section 202 development cost limits compare with other objectively measurable indicators of local construction costs. We anticipate this evaluation will be completed in late spring 2004.

- GAO recommended the Department make the necessary changes to these methods based on this evaluation, so that capital advances adequately cover the development costs of Section 202 projects consistent with HUD's project design and cost standards. HUD will consider this recommendation. The Department will be discussing this recommendation with Section 202 program stakeholders this summer and completing the evaluation prior to making any changes to the current methods.

- GAO recommended that the Department provide regular training to ensure that all field office staff are knowledgeable of and held accountable for adhering to current processing procedures. As I previously have stated, during FY 2002, the Department provided training to field staff for the first time in ten years. Subject only to resource limitations, we are committed to continuing to implement an effective training program. Our next training will include technical processing training for field staff to assure that there is consistent processing nationwide.

- GAO recommended that the Department update its handbook to reflect current processing procedures. The Department has initiated the process of consolidating and updating the Section 202 program handbooks. We hope to complete this process by the end of FY 2004 so to allow the Department to incorporate any changes to the program as a result of the meeting with Section 202 stakeholders and completion of the cost limits study.

- GAO recommended that the Department improve the accuracy and completeness of information entered in the Development Application Processing (DAP) system by field office staff and expand the system's capabilities to track key processing stages. During FY 2002, there was an intensive effort to verify the accuracy of the information in the DAP system by HUD staff. The Department is committed to expanding the capabilities of the DAP system, and it is an Information Technology priority.

The Department is committed to strengthening the Section 202 program to better address the need for affordable elderly housing. GAO's assistance in monitoring this program and the Department's performance has been very beneficial.

Department's Commitment to the Section 202 Program

The Administration and the Department are committed to the ongoing viability of the Section 202 program. We are committed to working with you, with the nonprofit organizations that sponsor these projects, and with elderly persons eligible to reside in these projects to make sure that this program continues to be successful and a viable resource.

We are appreciative of the GAO study because it caused the Department to take a closer look at the performance of the Section 202 program and the Department's policies for administering the program In the FY 2004 budget process, the Administration conducted its own assessment of the program, identifying several areas of weakness, including lack of performance measures, undefined long-term benefits and higher costs compared with alternative housing programs.

In response to these reviews, the Department has taken and is taking a number of steps to improve the program's performance, including the following:

1. Established a management plan goal that focused on the reduction of the aged projects in the development pipeline. This has resulted in a reduction in the projects in the aged pipeline from 118 projects in 2001 to 7 as of June 2003. This was accomplished through working with our senior leadership in Headquarters and the field to focus attention on getting aged projects to their initial closing as well as continuing to focus on the more recently funded projects. Senior staff in Headquarters communicated regularly and directly with the senior leadership in the field to discuss the status of the aged projects and has and will continue to provide the necessary Headquarters' assistance to get the projects to initial closing

2. As stated above, the Department recognized that a large number of the staff processing Section 202 projects had never received any Section 202 development processing training because they were either new to the Department or new to the Section 202 program. Consequently, the first classroom training on the development processing of Section 202 projects in 10 years was held in FY2002.

3. The Department has strengthened the structure of the program by tightening the selection criteria for new projects. Because of the keen competitiveness of this program, the loss of even one point could cause an application to not be selected. Changes to the selection criteria in this year's Notice of Funding Availability include:

a. Loss of 4 points if the Sponsor had a previously funded project that had been extended more than 48 months, 3 points if extended more than 36 months, or 2 points if extended more than 24 months, unless the delay was beyond the control of the Sponsor.

b. Loss of 1 point if the delay (unless it was beyond the control of the Sponsor) resulted in the need for amendment funds.

c. Loss of 1 point if the proposed site was not properly zoned.

d. Awarding 5 points to those applications in which the Sponsor's development timeline indicated their full understanding of the development process so it would result in the timely development of the project.

4. The Department has reviewed and verified the Development Application Processing (DAP) database so the pipeline data is accurate which allows the Department to manage the program effectively.

5. The Department plans to meet with Section 202 stakeholders this summer to discuss the Section 202 program and solicit their input on ways to improve the administration of the program.

6. The Department has drafted regulations to implement the Mixed Finance provisions of the American Homeownership and Fair Housing Act of 2000. The interim regulations, which will allow for use of low-income housing tax credits and other additional funding for Section 202 projects were recently submitted to OMB for review. We anticipate being able to publish these regulations during the first quarter of FY 2004. Although we recognize that the amount of time that the Department has taken to develop these regulations has been lengthy, this Administration initially focused attention on developing the procedures for certain existing Section 202 projects to refinance their mortgages- a priority to both the Department and Section 202 stakeholders. Consequently, it has taken us some time to develop policies to implement the statutory changes permitting mixed financing while at the same time insuring that the integrity of the program is maintained and that the interests of the population that these projects are to benefit are protected.

7. The Department will produce a plan this year to improve the Section 202 program's performance, which will include the development of meaningful performance measures. In the review leading to this plan, HUD will examine other policy changes or reforms to strengthen the program's performance.

In summary, the Administration and Department are committed to the ongoing viability and successful performance of the Section 202 Supportive Housing for the Elderly program. However, this commitment does not come without some challenges.

We are confident that working with you and other stakeholders this challenge will be met.

This concludes my statement, Mr. Chairman. Thank you again for the opportunity to appear before this Special Committee.

The CHAIRMAN. John, does your time allow you this morning to stay until the next panel testifies? What I would like to do is have you all at the table because I would like to have you respond possibly to some of their testimony. Does your schedule allow that? That would probably take another 20 minutes, 30 minutes.

Mr. WEICHER. I can make myself available for that, Mr. Chairman.

The CHAIRMAN. I would appreciate that if you could.

So, with that, I will withhold questions until the next panel, and then we will bring you all to the table, and I will ask questions of all of you, because I would like to have you hear their testimony if you would, please. John, thank you very much.

Now let me call our second panel: Mr. David Wood, Director of Financial Markets and Community Investment, General Accounting Office; Cynthia Robin Keller, Vice President of Affordable Housing and Development, Volunteers of America; Tom Herlihy, development assistant, National Church Residences, Columbus, OH; and Lee Ann Hubanks, Executive Director, Plano Community Homes.

We are going to ask that you adhere to the 5-minute rule, and your full statements will become a part of the record.

Mr. Wood, we will start with you. Thank you.

STATEMENT OF DAVID G. WOOD, DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, GENERAL ACCOUNTING OFFICE, WASHINGTON, DC

Mr. WOOD. Thank you, Mr. Chairman. I appreciate the opportunity to be here today.

My statement addresses the two principal topics covered in our report to you and Ranking Member Breaux: first, the relative importance of the Section 202 program in meeting the housing needs of the low-income elderly, and, second, the timeliness with which projects move through the planning and approval process.

According to the 2001 American Housing Survey, nationwide there were about 3.3 million elderly renter households with very low incomes. About 1.3 million of the households received some type of Government housing assistance. We estimate that the 202 program was responsible for assisting about 20 percent of those households.

However, despite its exclusive focus on very low-income elderly renters, the 202 program serves only about 8 percent of target households. More than half of the very low-income elderly renter households did not receive any form of Government housing assistance. HUD considers the large majority to be rent burdened because they pay more than 30 percent of their incomes for rent. Accordingly, it is important that Section 202 projects are developed in a timely manner.

HUD's development approval process is directed at completing specific plans needed to start construction. Among other things, project sponsors must prepare and HUD field offices must review architectural plans and detailed cost estimates. The agency's goal is generally to complete these steps within 18 months of selecting the projects for funding. However, HUD's field offices may extend this period by up to six months. HUD headquarters has to approve any further extensions.

We specifically looked at all 494 projects that were selected for funding in fiscal years 1998 through 2000. We found that more often than not, the projects took longer than HUD's 18-month guideline. Specifically, we found that as of December 2002, 132 projects, or about 27 percent of the total, had met the 18-month guideline. Another 140 projects, about 28 percent, had been processed within 24 months. One hundred twenty-seven projects were still pending, including 11 that were funded in 1998 and 34 that were funded in 1999. All together, 73 percent of the projects did not meet HUD's 18-month guideline.

To explore the potential reasons for this, we surveyed HUD field office staff as well as selected program sponsors and consultants. We also looked at HUD headquarters' oversight of the program. We identified a number of factors that can affect project timeliness.

The first concerns the amount of funds that HUD makes available for each project called the capital advance. HUD's policy is for capital advances to fund the total development cost of modestly designed projects that meet minimum property standards and applicable codes. However, about 90 percent of sponsors and consultants and nearly two-thirds of HUD's field offices reported that capital advances were often or even always insufficient. In such cases, sponsors must either seek additional funding from other sources, redesign their projects to lower costs, or both. These activities take time.

A second factor was variation in the procedures that HUD's field offices used to approve projects for construction. At the time of our review, HUD's field office staff was relying on out-of-date program handbooks that did not reflect streamlining steps the agency adopted in 1996. Further, most field office staff had not received any formal training on Section 202 projects. Last year, HUD offered the first formal training on the program in at least 10 years.

Third, we found that to monitor projects, HUD headquarters relies on an automated system with limited ability to track projects through each stage of development.

Finally, our survey identified some factors outside of HUD's control, such as inexperienced project sponsors and local government permitting and zoning requirements, that can prolong project development.

As a result of our work, we made the recommendations that Dr. Weicher just discussed, and HUD outlined its plans for acting on them. As in all such cases, we will be tracking the agency's actions as part of our normal follow-up procedures.

That concludes my prepared statement. I will be happy to take any questions.

[The prepared statement of Mr. Wood follows:]

United States General Accounting Office

GAO

Testimony

Before the Special Committee on Aging, U.S. Senate

For Release on Delivery
Expected at 10:00 a.m. EDT
Tuesday, June 17, 2003

ELDERLY HOUSING

Project Funding and Other Factors Delay Assistance to Needy Households

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

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GAO-03-807T

GAO Accountability·Integrity·Reliability

Highlights

Highlights of GAO-03-807T, a testimony before the Special Committee on Aging, U.S. Senate

June 2003

ELDERLY HOUSING

Project Funding and Other Factors Delay Assistance to Needy Households

Why GAO Did This Study

In 2001, an estimated 2 million elderly households with very low incomes (50 percent or less of area median income) did not receive housing assistance. The Department of Housing and Urban Development (HUD) considered most of these households to be "rent burdened" because they spent more than 30 percent of their incomes on rent. The Section 202 Supportive Housing for the Elderly Program provides capital advances (grants) to nonprofit organizations to develop affordable rental housing exclusively for these households. Based on a report issued in May 2003, this testimony discusses the role of the Section 202 program in addressing the need for affordable elderly housing and factors affecting the timeliness of approving and constructing new projects.

What GAO Recommends

In its report, GAO made recommendations designed to reduce the time required for projects to receive approval from HUD to start construction. Specifically, GAO recommended that HUD assess the effectiveness of the methods it uses to calculate the size of the Section 202 capital advances and make any appropriate changes to them. GAO also made other recommendations to improve HUD's administration and oversight of the 202 program's performance.

HUD concurred with the recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-03-807T.

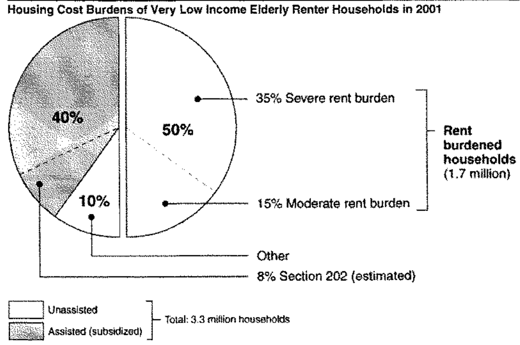
To view the full product, including the scope and methodology, click on the link above. For more information, contact David G. Wood at (202) 512-8678 or WoodD@gao.gov.

What GAO Found

As the only federal housing program that targets all of its rental units to very low income elderly households, HUD's Section 202 program provides a valuable housing resource for these households. Although they represent a small share of all elderly households, very low income elderly renters have acute housing affordability problems because of their limited incomes and need for supportive services. The Section 202 program offers about 260,000 rental units nationwide and ensures that residents receive rental assistance and access to services that promote independent living. However, even with the program's exclusive focus, Section 202 has only reached an estimated 8 percent of very low income elderly households.

More than 70 percent of Section 202 projects in GAO's analysis did not meet HUD's time guideline for gaining approval to start construction. These delays held up the delivery of housing assistance to needy elderly households by nearly a year compared with projects that met HUD's guideline. Several factors contributed to these delays, particularly capital advances that were not sufficient to cover development costs. Project sponsors reported that because of insufficient capital advances, they often had to spend time seeking additional funds from HUD and other sources. Although HUD's policy is to provide sufficient funding to cover the cost of constructing a modestly designed project, HUD has acknowledged that its capital advances for the Section 202 program sometimes fall short. Other factors affecting the timeliness of the approval process include inadequate training and guidance for field staff responsible for the approval process, inexperienced project sponsors, and local zoning and permit requirements.

Housing Cost Burdens of Very Low Income Elderly Renter Households in 2001



Sources: GAO analysis of the American Housing Survey, 2001, and HUD program data.

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to be here today to discuss the Department of Housing and Urban Development's (HUD's) Section 202 Supportive Housing for the Elderly Program. The Section 202 program provides funds to nonprofit organizations to develop affordable rental housing exclusively for very low income elderly households that do not receive other forms of housing assistance. In 2001, there were an estimated 2 million such households in the nation, most of which HUD considered "rent burdened" because their rents exceeded 30 percent of their household incomes.

Section 202 provides two types of financial support. First, HUD provides a project sponsor with a capital advance—essentially a grant—to cover land and construction costs. HUD's policy is to have the capital advance cover the total development costs of the project, which must be of modest design and must comply with HUD's minimum property standards. HUD uses a competitive process to select projects for funding and has guidelines calling for project sponsors and the agency's field offices to accomplish project processing activities—such as completing and approving design plans—within 18 months so that construction may commence. (HUD's field offices may grant extensions of up to 6 months without headquarters' approval.) Second, after the project is completed, HUD provides the sponsor with monthly rental assistance payments to defray some of the operating expenses. For fiscal year 2002, Congress appropriated about $783 million for the Section 202 program to fund the construction of over 6,000 new units, multiyear rental assistance contracts, and other authorized activities.

My statement today is based on the report on the Section 202 program that you requested and are releasing today.[1] Specifically, my statement discusses: (1) the role of the Section 202 program in meeting the housing needs of elderly renter households with very low incomes, (2) the extent to which Section 202 projects meet HUD's time guideline for approving projects to start construction, and (3) the factors that keep Section 202 projects from meeting the time guideline. In preparing the report, we analyzed data from HUD and other sources on the housing needs of very low income elderly households. In addition, we reviewed HUD program and budget data, surveyed all 45 HUD field offices that process Section 202

[1] *Elderly Housing: Project Funding and Other Factors Delay Assistance to Needy Households*, May 30, 2003 (GAO-03-512).

projects, and surveyed and interviewed project sponsors and consultants experienced in working with the Section 202 program. Our analysis focused on Section 202 projects funded between fiscal years 1998 and 2000.[2]

In summary:

- As the only federal housing program that targets all of its rental units to very low income elderly households, Section 202 is an important source of affordable housing for these households. Section 202 insulates tenants in housing units subsidized by the program from increases in housing costs by limiting their rents to 30 percent of household income. As of 2001, the program provided housing for an estimated one-fifth of the 1.3 million elderly renter households with very low incomes that received some form of government housing assistance. However, nationwide about 1.7 million elderly renter households with very low incomes did not receive government housing assistance and had a housing affordability problem—that is, they paid over 30 percent of their incomes for rent. Even with the program's exclusive focus, Section 202 has only reached an estimated 8 percent of very low income elderly renter households.

- More than 70 percent of Section 202 projects funded between 1998 and 2000 were delayed—that is, they took longer than the 18 months set out in HUD's guidelines to proceed from the date of the funding award to the date of HUD's approval to start construction (the project processing period). However, a majority of projects were approved for construction within 24 months, or 18 months plus the 6-month discretionary extension. Projects located in metropolitan areas were more likely than projects in nonmetropolitan areas to exceed the 18-month guideline. Further, projects that exceeded the 18-month guideline ultimately took an average of 11 months longer to finish than projects that met the time guideline, and these delayed projects contributed to the program's unexpended fund balances. At the end of fiscal year 2002, 14 percent of the Section 202 program's $5.2 billion in unexpended appropriations was associated with projects that had not yet been approved for start of construction after 18 months.

- Several factors impeded the timely processing of projects, according to project sponsors, consultants, and HUD field office staff. First, despite

[2]Lack of reliable program data prevented us from reviewing all Section 202 projects funded before fiscal year 1998.

HUD's intent, capital advances have not always covered the cost of developing projects, and the resulting shortfalls often prolonged processing times, in part because sponsors needed to seek additional funding. Second, field office staff's inconsistent implementation of procedures intended to streamline processing, as well as limited training and out-of-date guidance on processing policies and procedures, impeded timely processing. Third, HUD's project monitoring system has limitations that may have hindered HUD's ability to oversee project timeliness. Finally, other factors—including inexperienced sponsors and local permit and zoning requirements—prolonged processing time for some projects.

Based on our findings, we recommended that HUD evaluate the effectiveness of the current methods for calculating capital advances and make any changes necessary to ensure that capital advances adequately cover development costs. We made three additional recommendations—concerning HUD's training of field office staff, handbook guidance, and data systems—directed at more timely processing of projects. In commenting on the report, HUD agreed with the recommendations.

Background

HUD defines elderly households as those in which the householder—the person whose name is on the lease, mortgage, or deed—or the householder's spouse is at least 62 years old. Elderly households occupied about one-quarter (26 million) of the approximately 106 million housing units in the United States in 2001, according to the American Housing Survey.[3] A large majority of these elderly households were homeowners. A small share of elderly households, about 19 percent or 5 million, rented their homes (compared to about 36 percent of nonelderly households), and about 3.3 million of these elderly households were renters with very low incomes—that is, 50 percent or less of area median income.

The Housing Act of 1959 (P.L. 86-372) established the Section 202 program, which began as a direct loan program that provided below-market interest rate loans to private nonprofit developers, among others, to build rental housing for the elderly and people with disabilities. In 1990, the Cranston-Gonzalez National Affordable Housing Act (P.L. 101-625) modified Section

[3]As in other surveys, estimates from the American Housing Survey are subject to both sampling and nonsampling errors. All numerical estimates derived from the survey have sampling errors of ±10 percent or less of the value of those numerical estimates, unless otherwise noted. All percentage estimates have sampling errors of ±6 percentage points or less, unless otherwise noted.

202 by converting it from a direct loan program to a capital advance program.

In its current form, Section 202 provides capital advances—effectively grants—to private nonprofit organizations (usually referred to as sponsors or owners) to pay for the costs of developing elderly rental housing. As long as rents on the units remain within the program's guidelines for at least 40 years, the sponsor does not have to pay back the capital advance. HUD calculates capital advances in accordance with development cost limits that it determines annually, and HUD's policy is that these limits should cover the reasonable and necessary costs of developing a project of modest design that complies with HUD's project design and cost standards as well as meets applicable state and local housing and building codes.

To be eligible to receive Section 202 housing assistance, households must have very low income and one member who is at least 62 years old. Section 202 tenants generally pay 30 percent of their income for rent. Because their rental payments are not sufficient to cover the property's operating costs, the project sponsor receives rental assistance payments from HUD to cover the difference between the property's operating expenses (as approved by HUD) and total tenant rental receipts.[4] In addition, the project sponsor can make appropriate supportive services, such as housekeeping and transportation, available to these elderly households.

From year to year, Section 202 has carried significant balances of unexpended appropriated dollars for capital advances and rental assistance payments. In fiscal year 2002, the unexpended balance for Section 202 was approximately $5.2 billion. About 41 percent of this balance was in capital advance funds and 59 percent was in rental assistance funds. Some of these unexpended funds have not yet been awarded to projects, and others are for projects that have not begun construction. Once construction begins, funds are expended over several years during the construction phase and during the term of the rental assistance contracts.

[4]The term on rental assistance contracts is 5 years, although HUD has authorized these contracts for as long as 20 years. After these contracts expire, HUD renews them for 5 years, subject to the availability of funds.

Other federal programs can provide housing assistance to needy elderly households, albeit not exclusively. For example, low income housing tax credits and tax-exempt multifamily housing bonds provide federal tax incentives for private investment and are often used in conjunction with other federal and state subsidies in the production of new and rehabilitated rental housing. The Housing Choice Voucher Program supplements tenants' rental payments in privately owned, moderately priced apartments chosen by the tenants. Currently, about 260,000 of the approximately 1.5 million voucher households are elderly. Other programs are discussed in an appendix to the report.

Section 202 Is an Important Source of Housing for Elderly Households with Very Low Incomes

Section 202 is the only federal housing program that targets all of its rental units to very low income elderly households. Because these households often have difficulty affording market rents, program funding is directed to localities based in part on their proportions of elderly renter households that have a housing affordability problem. Section 202 insulates tenants in housing units subsidized by the program from increases in housing costs by limiting rents to a fixed percentage of household income. The program is a significant source of new and affordable housing for very low income elderly households. Even with the program's exclusive focus on the very low income elderly, Section 202 has reached only a small share of eligible households.

Section 202 Targets Very Low Income Elderly Households and Makes Supportive Services Available

Congress specifically intended the Section 202 program to serve very low income elderly households and to expand the supply of affordable housing that can accommodate the special needs of this group.[5] HUD takes into account the need for the kind of housing Section 202 provides when allocating program funds to the field offices. The criteria for allocating funds to the field offices include, among other things, the total number of very low income elderly renters in the area and the number in this group that pay more than 30 percent of their incomes for rent. According to the American Housing Survey, in 2001 about 1.7 of the 3.3 million elderly renters with very low incomes paid over 30 percent of their incomes for rent.

The rent that tenants in Section 202 housing pay equals a percentage of their household incomes—generally 30 percent. This percentage remains

[5] 12 U.S.C. 1701q(a).

constant, so the amount of rent tenants pay increases only when household income rises, protecting them from rent increases that might be imposed by the private housing market when market conditions change. In contrast, very low income elderly renter households that do not receive this type of assistance are vulnerable to high rent burdens and increases in market rents. Most of these households have few or no financial resources, such as cash savings and other investments, and rely primarily on fixed incomes that may not increase at the same rate as market rents.

Section 202 serves another important function, potentially allowing elderly households to live independently longer by offering tenants a range of services that support independent living—for example, meal services, housekeeping, personal assistance, and transportation. HUD ensures that sponsors have the managerial capacity to assess tenants' needs, coordinate the provision of supportive services, and seek new sources of assistance. HUD pays a small portion of the costs of providing these services through its rental assistance payments.

Section 202 Provides an Estimated One-Fifth of All Government-Subsidized Housing for Very Low Income Elderly Renters

According to the American Housing Survey, in 2001 about 1.3 million, or 40 percent, of elderly renter households with very low incomes received some form of rental assistance from a government housing program, including Section 202. According to our analysis of HUD program data, about 260,000 Section 202 units with rental assistance generally served very low income elderly households in 2001. Taken together, these two sources of data suggest that Section 202 served around one-fifth of the 1.3 million assisted elderly households identified in the American Housing Survey.[6]

While Section 202 is an important source of affordable elderly housing, the program has reached a relatively small fraction of very low income elderly renter households. Between 1985 and 2001, Section 202 reached no more than about 8 percent of elderly households eligible for assistance under the program. Also, during this period, many of the elderly renter households with very low incomes—ranging from about 45 to 50 percent—had housing affordability problems. Other federal programs that develop rental housing generally target different income levels, serve other populations in addition to the elderly (including families with children and

[6]Because this estimate is derived from two different sources, we cannot give a precise percentage; thus, this estimate is intended to be illustrative.

people with disabilities) and do not require housing providers to offer supportive services for the elderly.

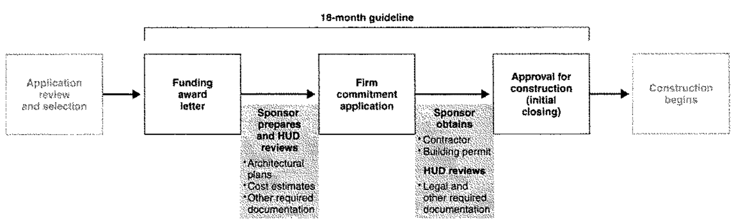
Section 202 Projects Generally Did Not Meet Guidelines for Timeliness

Most of the Section 202 projects funded between fiscal years 1998 and 2000 did not meet HUD's guideline for approving the start of construction within 18 months. However, a slight majority of the projects were processed and approved to start construction within 24 months. Timeliness varied both across HUD's field offices and by project location (metropolitan versus nonmetropolitan areas). As well as taking longer to complete than other projects and thus delaying benefits to very low income elderly households, projects that were not approved for construction after the 18-month time frame increased the Section 202 program's year-end balances of unexpended appropriations.

HUD Took Longer Than 18 Months to Approve Most Projects for Construction

HUD's guidelines state that within 18 months of the funding award date, field offices and project sponsors must complete various task before construction can commence (fig.1). Altogether, 73 percent of the Section 202 projects funded from fiscal years 1998 through 2000 did not meet this 18-month processing time guideline. These projects accounted for 79 percent of the nearly $1.9 billion in funding awarded to projects during this period. Also during this period, 78 percent of projects located in metropolitan areas exceeded the 18-month guideline as opposed to 61 percent of projects located in nonmetropolitan areas.

Figure 1: Section 202 Project Processing



Source: GAO presentation based on flowchart provided by HUD.

HUD field offices may grant an extension of up to 6 months after the 18-month guideline for projects needing more time to gain approval to start construction, and many projects were approved within that 6-month time frame. Of the projects funded from fiscal years 1998 through 2000, HUD approved 55 percent for construction within 24 months of the funding award—27 percent within 18 months and 28 percent within 19 to 24 months. The remaining 45 percent of projects took longer than 24 months to be approved.

We looked at the performance of HUD's 45 field offices that process Section 202 projects and found that they had varying degrees of success in meeting the 18-month guideline. We evaluated their performance by estimating the percentage of projects approved for construction within 18 months for each field office. Among these offices, the median project approval rate for construction within 18 months was 22 percent, but their performance varied widely. Eight field offices had no projects that met the 18-month guideline, while at one office more than 90 percent of projects met the guideline. Field offices' performance varied by region, with those located in the northeast and west being least likely to approve projects within 18 months of the funding award.

Delayed Projects Affected the Program's Production Times and Expenditures

Meeting processing time guidelines is important because most of the delays in total production time—that is, the time between funding award and construction completion—stem from the project processing phase. When we compared the average total production times for completed projects that did not meet HUD's 18-month processing guideline and those that did, the delayed projects took 11 months longer than other projects to proceed from funding award to construction completion. Since the average time taken for the construction phase was very similar for all projects, most of the 11-month difference in total production time was attributable to the extra 10 months that delayed projects took to complete the processing phase.

Delayed processing of Section 202 projects also affected the Section 202 program's overall balances of unexpended appropriations. At the end of fiscal year 2002, for example, HUD had a total of $5.2 billion in unexpended Section 202 funds. A relatively small part of these unexpended funds—about 14 percent—was attributable to projects that had not yet been approved to start construction and had exceeded HUD's 18-month processing time guideline. Consequently, none of the funds reserved for these projects had been expended. By contrast, the remaining 86 percent of unexpended funds were associated with projects for which HUD was in the process of expending funds for construction or rental assistance. For example, almost half of the unexpended balances—about

48 percent—resulted from projects that had already been completed but were still drawing down their rental assistance funds as intended under the multiyear project rental assistance contract between HUD and the project sponsor.

Various Factors Can Delay the Approval of Projects for Construction

Our review of projects funded from fiscal years 1998 through 2000 shows that several factors impeded Section 202 projects from meeting the 18-month processing time guideline, including insufficient capital advances, limited training and guidance for HUD field office staff on processing policies and procedures, and limitations in HUD's project monitoring system. Factors external to HUD, such as sponsors' level of development experience and requirements established by local governments, also hindered processing.

Insufficient Capital Advances Caused Some Sponsors to Seek Other Funding

Although HUD policy intends for capital advances to fund the cost of constructing a modestly designed project, capital advances have not always been sufficient to cover these expenses.[7] HUD field office staff, project sponsors, and consultants reported that program limits on capital advances often kept projects from meeting HUD's time guideline for approving projects for construction. Most field offices, and every sponsor and consultant that we surveyed, reported that insufficient capital advances negatively affected project processing time, and a substantial majority of respondents indicated that this problem occurred frequently. Many respondents also reported that securing secondary financing to supplement the capital advance amount often added to processing time. According to nearly all sponsors and consultants, the capital advance amounts set by HUD were frequently inadequate to cover land, labor, and construction costs as well as fees imposed by local governments. As a result, sponsors had to seek secondary financing from other federal, state, and local sources—including other HUD programs—or redesign projects to cut costs, or both. According to a HUD official, the agency is currently initiating steps to study the sufficiency of capital advances in covering project development costs.

[7] See 66 *Fed. Reg.* 6647 (Jan. 22, 2001).

Varying Field Office Practices and Inadequate Staff Training and Guidance Affected Timely Processing

In 1996, to help ensure that field office staff and project sponsors could complete project processing requirements within the 18-month time guideline, HUD adopted changes that were intended to streamline processing procedures.[8] One of the key changes included requiring field office staff to accept sponsor-provided certifications of architectural plans, cost estimates, and land appraisals. Previously, field office staff performed detailed technical reviews of these items.

According to our survey, differences in the procedures field offices used to approve projects for construction and the lack of staff training and experience affected project processing time. For example, most consultants and sponsors in our survey responded that inconsistent implementation of streamlined processing procedures by field offices caused delays, as did insufficient training for and inexperience of field office staff. Some consultants and sponsors whom we interviewed told us that some field offices continued to conduct much more detailed and time-consuming technical reviews of project plans than HUD's current policies require.

HUD has provided limited guidance for field office staff on the current processing policies and procedures. At the time of our review, most field office staff had not received any formal training on Section 202 project processing. According to HUD, in 2002, the agency required representatives from each field office to attend the first formal training on project processing for field office staff since at least 1992. Although HUD headquarters expected those who attended to relay what they had learned to other staff members in their own offices, our survey showed that by November 2002 no on-site training had occurred at about a quarter of the field offices. We also found that HUD's field office staff was relying on out-of-date program handbooks that did not reflect the streamlined processing procedures.

Administrative and Oversight Weaknesses at HUD Headquarters Contributed to Delays

HUD's project monitoring system was not as effective as it could have been and may have impeded HUD's oversight of project processing. HUD officials told us that headquarters periodically uses its Development Application Processing (DAP) system to identify projects that have exceeded the 18-month processing time guideline. In addition, headquarters contacts field offices on a quarterly basis to discuss the

[8] HUD Notice H 96-102.

status of these delayed projects. Nevertheless, HUD officials have acknowledged that there are data inaccuracies in the DAP system. The lack of reliable, centralized data on the processing of Section 202 projects has limited HUD headquarters' ability to oversee projects' status, determine problematic processing stages, and identify field offices that may need additional assistance. HUD officials indicated that enhancing the DAP system is a priority, but that a lack of funding has hindered such efforts.

Finally, other factors outside of HUD's direct control kept some projects from meeting the time guideline, according to field office representatives and sponsors and consultants responding to our survey. Almost all survey respondents agreed that project processing time was negatively affected when sponsors were inexperienced in project development. Nearly 60 percent of field offices, and almost 40 percent of sponsors and consultants, indicated that this problem occurred frequently. A majority of survey respondents reported that local government permitting and zoning requirements prolonged project processing, although we found differences of opinion on whether these problems occurred frequently. Community opposition and environmental issues were also reported to negatively affect project processing time, but not frequently.

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

Contacts and Acknowledgments

For further information on this testimony, please contact David G. Wood at (202) 512-8678 or Paul Schmidt at (312) 220-7681. Individuals making key contributions to this testimony included Emily Chalmers, Mark Egger, Daniel Garcia-Diaz, William Sparling, and Julianne Stephens.

The CHAIRMAN. David, thank you very much for that testimony. Now let me turn to Cynthia Keller, Volunteers of America. Cynthia, welcome to the committee.

STATEMENT OF CYNTHIA ROBIN KELLER, VICE PRESIDENT, AFFORDABLE HOUSING AND DEVELOPMENT, VOLUNTEERS OF AMERICA, ALEXANDRIA, VA

Ms. KELLER. Thank you. Mr. Chairman, I have been involved in the 202 program for approximately 20 years. On behalf of our organization, I want to express our sincere appreciation for your interest and concern for the Section 202 elderly program and for inviting us to be here today.

Volunteers of America is one of the Nation's largest and most comprehensive nonprofit, faith-based service organizations and is of the Nation's leading nonprofit providers of affordable housing. We currently have 151 Section 202 and Section 811 programs in operation, and we have an additional 24 facilities in various stages of development.

The problems we face as a nonprofit human organization and as a Nation in attempting to provide more and better facilities to house and serve America's seniors will be severely compounded by the expected rapid growth in the Nation's aging population in the coming decades and by the lack of adequate public policy and resources to meet that growth.

Clearly, as a Nation we have a problem of extraordinary scale and urgency as the housing and social services programs and funding we have in place today will not keep pace with the situation. Therefore, it is so important that programs that we have in place like the Section 202 Elderly Housing operate in an efficient and expeditious manner.

We are concerned, as our members of this committee, about the amount of pipeline time it takes from receiving notification from HUD that the Section 202 funds have been awarded to the actual time of construction start. On average, our experience shows that the process takes between 2 and 2–1/2 years.

In 1996, HUD issued Notice 96–102. The purpose of the notice was to make significant changes in the way that the 202 development processing was administered. Although one of the specific goals was to decrease the processing time, one of the changes in the notice actually had the effect of increasing processing time and increasing the cost to build the project. This change was the requirement that owners could not apply for additional funding from HUD for the project. As David said, our experience is the same. Approximately 90 percent of the facilities that we develop require additional money due to insufficient funding allocated at the time of the award. HUD will grant waivers to the requirement but only if the sponsor first demonstrates they have attempted to get funding from other sources prior to requesting additional monies from HUD.

Typically, the most common source of the additional funds is CDBG or HOME funds obtained either from the local municipality, the State, or both. State and local municipalities receive their CDBG and HOME funds from HUD. If sufficient funds are not available from those sources, the sponsor can try to obtain funds from the Federal Home Loan Bank or private foundations. Funding from the latter sources are quite difficult to obtain, and many private foundation grants are incompatible with the 202 program requirements.

All of the barriers to capital availability are intensified in the case of affordable housing development for the elderly due to the fact that the 202 program doesn't permit repayment of secondary financing until after the 40-year term of the HUD grant. This creates a barrier to obtaining supplemental funding when it is needed.

After the sponsor has tried the additional sources and still has insufficient funds to build the facility, the sponsor can request a waiver of HUD Notice 96–102 from the local office. In most instances, the local office will then request amendment money from HUD headquarters. The added processing time creates increases in the cost of the facility because of the financing search.

During this time, the sponsor is often forced to purchase the site out of their own resources, due to the fact that the sellers are normally not willing to continue to extent the option on the property. When a site has to be purchased, we incur costs such as insurance, property taxes, and interest on the funds used to purchase the site. Unfortunately, these costs are not reimbursable from HUD funds and can amount to several thousands of dollars. Therefore, for nonprofit sponsors, this understandably is a huge incentive to close on the loan as quickly as possible.

We at Volunteers of America encourage this committee to consider the following issues and suggested courses of action that will greatly assist in reducing processing time.

Recommendation 1, which you have also heard today, is in the future provide adequately funding to build the project at the time of the award. This can be done by ensuring that the high cost factors used in calculating the award are realistic. Currently, in our experience, only the North Carolina and Minnesota HUD offices have sufficient funds at the time of the grant to build the facility. Perhaps these offices could be consulted on their methods of determining the high cost factor. We believe the outcome would decrease the processing time by 6 to 12 months.

Recommendation 2, which we believe could happen almost immediately, would be to eliminate the requirement to seek funds from outside sources for the shortfall. You could allow local HUD offices to grant waivers to the 96–102, which would allow sponsors to receive amendment funds without first applying to outside agencies who receive their funds in most cases from HUD. The processing time, in our opinion, would decrease by 3 to 6 months.

Also, another recommendation which you have heard today is to provide additional HUD staff and training for the local staff. HUD headquarters offered training for the first time in August 2002. Approximately one person from each office was trained. While there has been some improvement in the uniform interpretation of the regulations, many offices are in need of additional training and staffing. With adequate staff, the HUD in-hour grant processing could decrease from 11.8 months, which is what the average of our portfolio is, to 2 months from the time it reaches HUD. This is the amount of time that HUD Notice 96–102 recommends, thereby clearing up most of the perceived pipeline issues.

We believe the HUD Section 202 program is one of the finest affordable housing programs that Congress has created. The program is fair, it is managed well once it is developed, and reaches those low-income elderly age 62 and over in an effective way.

We appreciate the opportunity to bring you our ideas and perspectives and want to assure you and all members of the committee that we are strongly committed to helping resolve the issues before the growing demand for elderly housing and supportive services spirals out of control. Mr. Chairman, we are confident that sound solutions can be found and implemented in a way that is fiscally responsible and fair to all parties.

We appreciate your commitment to the cause and look forward to working with you throughout the process. Thank you.

[The prepared statement of Ms. Keller follows:]

VOLUNTEERS OF AMERICA
TESTIMONY ON ELDERLY HOUSING:
AN ANALYSIS OF
BUREAUCRATIC PROBLEMS IN THE ADMINISTRATION
OF HUD SECTION 202 HOUSING PROGRAM

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

June 17, 2003

Mr. Chairman, Members of the Committee, I am Robin Keller, vice president for affordable housing development at Volunteers of America. I have been actively involved with 202 housing for approximately 20 years. On behalf of our organization, I want to express our sincere appreciation for your interest and concern for the Section 202 Elderly Housing program and for inviting us to be here today.

Volunteers of America is one of the nation's largest and most comprehensive charitable, nonprofit, faith-based human service organizations. From rural America to inner-city neighborhoods, Volunteers of America engages its professional staff and volunteers in designing and operating high quality human services that deal with today's most pressing social needs for abused and neglected children, youth at risk, the frail elderly, the disabled, homeless individuals and families, ex-offenders, substance abusers, and many others in need of assistance.

In addition, Volunteers of America is one of the nation's leading nonprofit providers of quality affordable housing for individuals and families in need, people with disabilities, and the elderly in over 220 communities across the United States, and is a growing provider of assisted living, skilled nursing and Alzheimer facilities for seniors with limited resources. We currently have 151 Section 202 and Section 811 facilities in operation and an additional 24 facilities in various stages of development. As a leading provider of housing and services for the elderly, Volunteers of America is an active member of the Leadership Council of Aging Organizations, the American Association of Homes and Services for the Aging, the National Council on the Aging, the Interfaith Coalition for Long Term Care, and the Elderly Housing Coalition.

As a faith-based organization we are committed to:

- High quality services
- A holistic approach to meeting an individual's physical, social, emotional and spiritual needs

Volunteers of America

- The dignity of each person
- A focus on what is best for individuals, families and communities through an extensive and fully participative communication process involving all parties, and
- A special focus on serving low-income persons

The problems we face as an nonprofit human service organization and as a nation in attempting to provide more and better facilities to house and serve America's seniors, especially the frail elderly, will be severely compounded by the expected rapid growth in the nation's aging population in the coming decades and the lack of adequate public policy and resources to meet that growth.

In a recent study, "The State of the Nation's Housing 2001," the Joint Center for Housing Studies of Harvard University reported that heads of households over the age of 75 "are expected to increase by roughly 1.3 million over the decade." They go on to say, "This growth implies rising demand for housing that allows seniors to age safely in place and for specialized facilities such as assisted living and continuing care communities."

The Harvard report further indicates that, of the nearly 5 million one-person households to be added over the next decade, "almost one-third will be over the age of 65." This growth is not going to take place in the distant future, it is going to be taking place between now and 2010, when the baby boomer generation begins to retire in ever increasing numbers.

Clearly, as a nation we have a problem of extraordinary scale and urgency as the housing and social services programs and funding we have in place today will not keep pace with this situation. Therefore, it is so important that the programs we have in place—like Section 202 Elderly Housing—operate in an efficient and expeditious manner. So, like the members of this Committee, Volunteers of America is concerned about the amount of pipeline time it takes from receiving notification from HUD that Section 202 funds have been awarded to the time of actual construction start. On the average our experience shows that the process now takes two to two-and-a-half years.

In 1996, HUD issued Notice 96-102. The purpose of this notice was to make significant changes in the way the Section 202 development processing was administered. Although one of the specific goals was to decrease the processing time, one of the changes in the notice actually had the effect of increasing processing time and increasing the cost to build the project. This change was the requirement that owners could not apply for additional funding from HUD for the project. Approximately 90 percent of the facilities that we develop require additional money due to insufficient funding allocated at the time of the award. HUD will grant waivers to this requirement but only if the sponsor demonstrates that they have attempted to obtain the funds from other sources prior to requesting amendment monies.

Typically, the most common source of these additional funds is Community Development Block Grant (CDBG) or HOME funds obtained either from the local municipality, or the state, or both. State and local municipalities receive CDBG and HOME funds from HUD, but each administers the grant application process differently. If sufficient funds are not available from those sources, the sponsor can try to obtain funds from the Federal Home Loan Bank or private foundations. Funding from the latter sources are often quite difficult to obtain, and many private foundation grants are incompatible with Section 202 program requirements.

Another negative impact on the facility, when there is not sufficient funding, is that the sponsor is forced to use the most economical materials that barely meet standards in order to cut costs. This causes additional long-term subsidy expense to HUD because of the need for increased rents to cover high maintenance costs over the life of the mortgage due to the short life span of the product.

After the sponsor has tried these additional sources and still has insufficient funds to build the facility, the sponsor requests a waiver of the HUD Notice 96-102. In most instances, the local HUD office will then request amendment funds from HUD Headquarters. The added processing time increases the cost of the facility due to increases in labor and materials prices during the extended financing search time.

Additionally, the sponsor often is forced to purchase the site out of their own resources, due to the fact that the seller will not continue to extend their option on the property. When a site must be purchased, the sponsor incurs costs such as insurance, property taxes, and interest on the funds used to purchase the site. Unfortunately, these costs are not reimbursable to the sponsor from HUD funds and can amount to several thousands of dollars. Therefore, for nonprofit sponsors, this understandably is a huge incentive to close on the loan as quickly as possible.

Some individuals might think that committed and competent nonprofit providers, like Volunteers of America, have access to sufficient resources to meet the growing national need for elderly housing on their own. Unfortunately, that is not the case, especially with respect to development on a large-scale at a time when funds for housing and social services are shrinking.

Volunteers of America

Furthermore, elderly housing sponsors always have had difficulty competing for funds in the private money market because traditional sources of private capital have tended to see elderly housing loans as more labor intensive and less profitable because they have unique physical characteristics, unusual exposure to changes in government policy, and complex requirements for sponsor success. All of these barriers to capital availability are intensified in the case of affordable housing development for the frail elderly, as well as the fact that the Section 202 program does not permit repayment of secondary financing until after the 40-year term of the HUD grant, which creates a barrier to obtaining supplementary funding, if it should be needed.

As an example of what I've said, the typical timing for a project in the pipeline is:

Funding Notification	11-01-03
Appraisal Completed	12-15-03
Soils Testing Completed	01-15-04
Plans and Specifications Complete	06-01-04
City Approval	09-01-04
Contractor Prices Job	09-15-04
Cost Analysis	10-01-04
Value Engineering (if any)	11-01-04
Apply for gap funding	05-01-05 (Add 6 months)
Firm Commitment Presented	05-15-05 (Next step averages 11.8 months
HUD Firm Commitment Issued	04-01-06 instead of the expected 2 months)
Closing/Construction Start	06-15-06
Total Time:	2 years 7 months

We at Volunteers of America encourage this Committee to consider the following issues and suggested courses of action that will greatly assist in reducing the processing time:

<u>Recommendation # 1</u>

Provide adequate grant funding to build the project at the time of the award.

Method: Ensure that the high cost factors used in calculating the award are realistic. The local HUD office generally has access to the actual costs of recently completed facilities to use as a guideline. These costs could be used, factoring in a percentage for increases during the next 18 months using historical data (e.g., a 50 unit project costs $60 per square foot in 2000, $65 in 2001, so therefore it is reasonable to assume that the cost could be $70 in 2002). Currently, in our experience, only the North Carolina and

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Minnesota HUD local offices have sufficient funds at the time of the grant to build a project. Perhaps these offices could be consulted on their methods of determining the high cost factor for their areas.

Outcome: Processing time would decrease by 6 to 12 months.

Recommendation # 2

Eliminate the requirement to seek funding from sources outside of HUD for the shortfall in funds.

Method: Allow local HUD offices to grant waivers to Notice 96-102, which would allow sponsors to receive amendment funds without first applying to outside agencies. Most outside agencies have scheduled dates for accepting applications, generally only one or two times per year. The increase in labor and materials pricing, the cost of the application preparation, and the two to three month wait for processing and award at the local city and state level would be eliminated.

Outcome: The processing time would be decreased by an additional three to six months.

Recommendation # 3

Provide for additional HUD staff and/or additional training for HUD local office staff.

Method: HUD Headquarters offered training on Notice 96-102 for the first time in August 2002, six years after the Notice was issued. Approximately one person from each office was then trained. While there has been some improvement in the uniform interpretation of the regulations, many offices are in need of additional training. After all, the systems in place already provide assurances to HUD that the facility is designed and priced within acceptable guidelines: they permit the sponsor to utilize a HUD–approved appraiser, HUD requires that the architect carry errors and admission coverage and certify that the project is built within HUD guidelines and standards, and that an independent cost analysis is performed to ensure that costs are within established HUD guidelines.

Outcome: With adequate staff and training, the HUD in-house grant processing time could decrease from 11.8 months—the current average of our portfolio—to 2 months, the amount of time the HUD Notice 96-102 recommends, thereby clearing up most perceived pipeline issues.

Volunteers of America

Summary

Mr. Chairman, Volunteers of America believes the HUD Section 202 program is one of the finest affordable housing programs that Congress has created. The program is fair, is managed well once developed, and reaches those elderly aged 62 and over (whose income is at 50% of area median income or less) in an effective way. We are encouraged that you are interested in finding ways to improve it even more.

We appreciate the opportunity to bring you our ideas and perspectives and want to assure you and all members of the Committee that Volunteers of America is strongly committed to helping resolve these issues before the growing demand for elderly housing and supportive services spirals out of control. We are confident that sound solutions can be found and implemented in a way that is fiscally responsible and fair to all parties.

We appreciate your commitment to this cause and we look forward to working with you throughout this process. Please contact Ron Field, our vice president for public policy, or me for further information. Thank you.

Submitted by:

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The CHAIRMAN. Thank you very much, Cynthia.

Now let us turn to Tom Herlihy, National Church Residences.

STATEMENT OF TOM HERLIHY, DEVELOPMENT SPECIALIST, NATIONAL CHURCH RESIDENCES, COLUMBUS, OH

Mr. HERLIHY. Senator Craig and committee members, thank you for the opportunity to be here this morning. National Church Residences has approximately 225 properties in 25 States. Approximately 150 of those are 202 facilities, and the remainder for the most part are low-income housing tax credit facilities. I would just like to echo that it is a very good program, but I would like to go into a few items that do cause delays in the developing process.

First of all, I would like to refer over to the board at Steps 6, 7, and 8. One of the initial delays coming right out of the block is the application and review period from when we apply for funds to the time that we receive the funds. We have just recently submitted 12 applications just on last Friday for funding in this program. This is one application of which we submitted 12 in 10 different States. I believe one of the things that could be done to improve the program would be to decrease the review period. Right now it is approximately six to seven months. If you took a review of the different State-run tax credit programs, they typically review those and award funds within a three to four-month period. Also, approximately a third to 50 percent of this application covers information that is basic information on the sponsor and so on, and it is not necessarily site-specific. When these applications are turned in to the individual field office for their review, I believe they are somewhat burdened by having to review these, just as we are somewhat boggled by the amount of information that we have to provide.

Perhaps if we split the application process into possibly two steps where you had basic information that is sponsor-provided that would be provided to HUD, and that could be done at once at one field office, or perhaps once you attained a certain score, then that score would be held for a number of times. So in the application process, all we would be submitting would be site-specific information. That would facilitate their ability to review in a quicker process.

Second of all, something that could cause a delay is just the nature of the zoning process, and that really has nothing to do with whether the project is funded through HUD or whether it is a private development process. The local zoning process is often very cumbersome. It is typically a two-step process where we go before the planning commission first, and then after their approval and review, then we go to city council. Even if property is properly zoned, it is not uncommon that elderly housing is sometimes what they refer to as a conditional use. That means that you just can't apply for a building permit; you still have to go through the planning commission and city council review process.

It is not uncommon that the zoning process takes approximately four months. It is also very difficult for us to begin that process prior to the time when we are awarded the funds. It is typical that we have to have the property surveyed, and we would have to have engineering plans for some of the site plan review type stuff, and so that would preclude us from being able to initiate that process prior to the award of funds. So part of it is just the sequence of activities that we have to go through, and we have to take those in the proper order.

There have also been times, since it is a conditional use, where we are in essence kind of burdened by having to do some type of development that otherwise we wouldn't count on. A good example is a recent facility that I am working on right now. I had to install 450 feet of 6-foot-wide concrete sidewalk all the way across my property, and there are no sidewalks at either end that it adjoins to. It is just an example of a local requirement that we could be forced to do.

I have also encountered delays in part due to the Davis-Bacon wage rates. If you would refer to Steps 9, 10, and 11, what the delay is, what is caused there is at times I have submitted a firm application and had the project in for final review. This is after we have building plans and everything complete at the point where we are ready to pull a building permit. At that point, we have a budget that we have worked on based on what the current Davis-Bacon wage rates are, and then once we have submitted the application for review, if there is a new wage decision which increases the labor rates significantly, then automatically our project is over budget. If we were right at the point where we basically can't pull anything else out of the building, we are forced to request for additional funds at that point. If that happens right prior to our initial closing, it can cause a substantial delay. It would be very beneficial if somehow we could lock in a wage rate at the time that the project is awarded perhaps for a 2-year period or something like that within the timeframe that we could reasonably expect to develop the project.

Last of all, I would just like to go into purchasing the land. That is a burden sometimes. Somewhat it is made more difficult by the process of these do take some time, and when we negotiate an option to purchase and control the site that is for an anticipated closing that is approximately a year and a half off, it puts us in a very poor bargaining position to attempt to negotiate land to purchase for that far off.

That is all I have at this time. Thank you.

[The prepared statement of Mr. Herlihy follows:]

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National Church Residences

June 13, 2003

I am Tom Herlihy, Development Specialist for National Church Residences (NCR). NCR is one of the nation's largest not-for-profit sponsors and managers of affordable housing for seniors, including over 15,000 federally assisted housing units located in 25 states. I am pleased to represent the views of NCR and the American Association of Homes and Services for the Aging (AAHSA), of whom we are a member. AAHSA is the largest organization representing nonprofit sponsors of senior housing. Our members own and manage more than 300,000 units of federally assisted and market rate housing – and we represent the largest number of sponsors of HUD Section 202 Supportive Housing for the Elderly projects.

NCR currently has eleven 202 projects in development, pre-Initial Closing, in South Carolina, Ohio, Pennsylvania, New Jersey, Texas and Arizona and three projects under construction in states including Kansas, Ohio and New Jersey.

HUD's Section 202 program addresses the specific and existing problem of a lack of affordable housing for very low income seniors who may also need access to some basic supportive services. The construction of almost 5700 units each year of such housing under the Section 202 program assists at least this many very low income seniors with securing supportive, safe, affordable and decent housing. The level of access to coordinated, supportive services in the Section 202 program is not found in any other Federal, state, local or private effort. Given the size of the program (building 5700 supportive and affordable units each year), the program is certainly unparalleled.

Section 202 funding applicants must demonstrate their property's proximity to medical facilities, transportation, shopping and other necessary services for intended occupants. They must also demonstrate the extent to which their property designs will meet the special physical needs of seniors, the extent to which the property will accommodate the provision of supportive services, how their proposed supportive services will meet the identified needs of anticipated residents, etc. No other program, not to mention a program of this size, must meet these thresholds with regard to housing seniors.

A HUD-funded Arthur Andersen report identified several areas where the Section 202 development pipeline could be improved. Among the reasons identified in this 2001 report were: competency deficiencies and inadequate number of staff at the HUD program centers handling Section 202 applications; problems with site control and other site issues; inadequate funding; and, inexperienced non-profits. Along with AAHSA, NCR is committed to the continual improvement of the Section 202 program.

The 202 program is burdened with delays form the onset, beginning with the 6-7 month process to review, score, rank, and award applications. Additionally, the "due date" for applications varies from year to year, as does the date that awards are announced. In 2003, for instance, applications were due June 13; traditionally, applications are due around Memorial Day. During the past five years, funding announcements have been issued in October, November, December, and January, which is 6-7 months after applications are submitted. Comparably, state LITHC applications are reviewed and awarded 90-120 days after submission. The evolving complexity of 202 applications is the most likely culprit for the increased time frame to process and award applications.

NCR believes there are some key areas where particular attention should be devoted in order to improve Section 202 processing timelines. One area is in the stage of the process from the application submission deadline to HUD announcement of awards. This time frame has become quite substantial and, we believe, unnecessarily long. From the deadline time to the announcement of awards has become a seven-month process. A quick survey of state housing finance agency low income housing tax credit application processes reveals their process (from deadline to grant award announcements) lasts for approximately 90-120 days. According to the 2001 Arthur Andersen report, the time needed for HUD field offices to review applications and calculate needed capital advance and project rental assistance amounts is 90-120 days. Then, HUD headquarters receives the field office recommendations. This report is consistent with our experience, stating, "Although there does not appear to be delays in the Funds Reservation process, in recent years there have been significant delays in the announcement of awards." In FY2002, for example, the notice of funds availability was published in March but awards were not announced until October.

Application / Award Process - It is my contention that the application process should be simplified, and the redundancies in the application eliminated. Given the fact that offices are inundated with applications, a simplified process would significantly expedite the process. I recommend that the current should be divided as follows:

1. General sponsor qualification information to be reviewed by one office. General, "evergreen" information, or consistent facts that have already been awarded points, can then be kept on file and renewed every three to five years, rather than annually;
2. Site-specific information, which would reduce the burden of scoring, ranking, and awarding funds. An inordinate amount of time is spent awarding "pooled" funds at the final stage of the process. A potential resolution is to announce locally funded applications prior to those funded from the national pool.

One of our most costly and critical upfront purchases is for land or an option to purchase land. The maintenance of site control is crucial for the timely completion of the development. Delays at the very beginning of the process add months to our timeline. As developers, we pay a premium to hold an option for a future property closing. This premium and thus the overall development budget could be reduced if HUD announced the awards in a more timely fashion. Furthermore, delays in grant announcements can lead to loss of site control if the seller decides to sell the land to another buyer. If a successful Section 202 applicant loses site control, additional time must be spent to purchase other land and work through land use approval processes. This is not necessarily a performance issue but rather a procedural practice that has evolved over the lifetime of the Section 202 program. We recommend that HUD announce awards immediately after project selection and Funds Reservation are completed at HUD.

Land Value – If the appraised value of the site does not match the price negotiated at closing, and if the seller is unwilling to renegotiate, we have no option but find and alternate site. Proper negotiation of land value is impeded by the fact the closing sale of land succeeds that date of negotiation by at least two years. In some cases, HUD field offices overturn professional appraisals, causing unnecessary construction delays and cost overruns in significant excess of any savings gained by the reduction of the land value.

Zoning – A time-consuming and frustrating process. Typically, we must first appeal to a planning and zoning commission, followed by appeals to city council. Each step requires a minimum of two hearings, which usually occur monthly. The entire process takes up to four months, but can takes longer.

Environmental Concerns - Possible environmental concerns cause substantial development delays. Subsequent investigations sometimes prove inconclusive and require additional tests to determine a proper course of action or resolution. I have seen environmental factors cause a project to be delayed for a year.

Local requirements – Multifamily or elderly housing is occasionally deemed an "allowed conditional use." If allowed the project must be reviewed and/or approved by planning and zoning, who may choose to saddle the project with special conditions. I've been forced to install covered bus shelters off-site, build sidewalks off-site, construct sidewalks 450'x6' wide when there were no sidewalks at either end, construct 6' high concrete block walls when there were no other walls in the area, make water and sewer improvements off-site, etc. We can often secure additional local funding, but the application process slows down development.

Davis-Bacon Wage Rates – In some instances, eleventh-hour increases in Davis-Bacon wage rates cause construction cost overruns as wage rates in effect at the time of bidding and used to figure budgets, are negated. Increases bring the development process to screeching halt, thereby necessitating value engineering, re-bidding, and reprocessing.

NCR also supports the AAHSA's testimony, particularly its recommendations to improve Section 202 processing, including increasing the number and training of HUD staff, adequate total development cost limits, outlining upfront costs in HUD's annual Notice of Funds Availability, encouraging experienced non-profits or partnership with experienced non-profits, providing realistic total development costs and issuing guidance implementing the Congressionally authorized ability to use non-HUD resources like low income housing tax credits in conjunction with Section 202 new development.

We would like to broadly state, however, that the Section 202 processing timeline is not wildly different from other construction ventures. The development timeline is most significantly affected by the local zoning process, which is the same for any developer (HUD-subsidized or not).

In addition to the recommendations and observations outlined above, NCR and AAHSA also believe that HUD's responsibilities to the Section 202 program are not limited to those related to the development process. After the housing is built, increased attention must be given to maintaining and preserving this stock. The Section 202 program was begun in 1959; its properties have aged in place along with its residents. HUD has paid admirable attention to trying to boost the supportive services available to our increasingly frail residents. Where we think HUD has ample room for improvement is in its dedication to assuring the long-term viability of the federally-subsidized housing stock for the long-term. According to the National Housing Trust in its research for the 2002 Seniors Commission report to Congress, 20,000 of the 197,000 federally-subsidized units lost to owner loan prepayment or non-renewal of HUD rent subsidy contracts were home to seniors. These units have been permanently lost to the private rental market. NCR and AAHSA strongly encourage HUD offices to work more closely with existing non-profits, which are often eager to help HUD preserve these units as affordable for very low-income seniors. With so few new Section 202 units being built each year, we cannot afford to continue to lose federally-subsidized units at the rate outlined by the National Housing Trust. We rely on HUD headquarters to consistently and strongly lead its field offices to preserve all viable affordable units for as long as possible.

There are some notable illustrations where HUD has worked in conjunction with non-profits to preserve housing. For example, in late 1999, NCR accepted title to two 52-unit affordable senior housing communities in eastern Ohio. Formerly owned by a for-profit organization, Bridgeport Manor and Barnesville Manor operated under the Section 8 program. In what marks a milestone in the transfer of property from a for-profit entity to a not-for-profit organization, HUD approved the transfer of the two facilities to NCR, citing NCR's commitment to the preservation of quality, affordable senior housing. NCR's acquisition of these two properties was part of HUD's Re-Engineering Demonstration project. The project was created to offset the number of for-profit entities that are opting out of the affordable housing program. In 1999, many 20-year HUD contracts expired, leaving affordable housing owners the option to either withdraw from the program or to re-negotiate their contracts with HUD. In re-evaluating the contracts, HUD lowers resident rent structures, thereby causing a substantial decrease in owner profit. Of approximately 169 eligible properties in Ohio in 1999, only 23 were approved for transfer by HUD. The acquisition of Bridgeport Manor and Barnesville Manor is the result of a transfer of physical assets, which amounts to a contribution to NCR from the former owner.

But, while there have been fewer than a dozen Section 202 foreclosures in the past two years, HUD has too often failed to protect these units for the long-haul. In one example, a Section 202 facility sold in Detroit called Four Freedoms. This is a 22 story building with 320 units (57% are efficiencies) that was constructed in the 1960's, originally as a non-profit Section 236 but later converted to Section 202. The result of this foreclosure will be a permanent loss of project-based subsidies and a loss of tax revenue to the City. In this instance, it appears that HUD did not intervene to provide timely technical assistance, to provide oversight, and to take other actions to preserve the affordable housing that was quickly sold to a for-profit buyer at a price far below the assessed value. This resulted in not only losing the affordable housing project, but compromising the integrity and long-term reputation of the program. Fiscal year 2003 will only finance about 110 units of senior housing in the Detroit area. Minimally, it will take three years to replace these 320 affordable senior housing units.

HUD has also been given tools by Congress to modernize their existing housing portfolio but has been painfully slow to implement these much-needed tools. For example, cash-starved Section 202 properties in desperate need of funds to modernize deteriorating properties were given the authority in 2000 to refinance high-cost loans and put the associated cost savings back into their properties. HUD field offices and HUD headquarters have been very slow to move what we believe are numerous applications in to do re-financings. Given today's interest rates, Section 202 owners with interest rates in the eight- and nine-percent ranges (and even higher) have much to gain from refinancing. But, HUD offices seem to lack the skilled staffing levels required to process these refinancing applications in efficient and effective ways that will benefit residents, the properties and the federal government.

A recent AARP study found that 20% of the oldest Section 202 facilities reported that their capital reserves are inadequate to meet current repair needs and that 36% reported that reserves are inadequate to meet projected repair needs. We believe that it is sound public policy to protect the public investment in federally assisted elderly housing facilities. There are over 5,000 properties (more than 250,000 units) that were developed by the pre-990 Section 202 loan program, including 2,800 projects developed under cost containment policies in the 1980s that severely limited common space, reduced amenities, used lesser quality materials and had an emphasis on efficiencies. In addition to structural needs, many of these older facilities need capital improvements to accommodate residents' present and future service needs.

In addition to speeding up the review and approval of refinancing applications, there are other ways NCR and AASHA believe Congress and HUD could assist non-profits in being stewards of this precious housing stock. These include:

- Enact exit tax relief for current owners.

- Establish a right of first refusal for Section 202s to purchase at-risk, federally-subsidized elderly housing.

- Authorize and fund grants to eligible non-profits to acquire at-risk properties.

- Release modernization grants to repair older properties. Although Congress authorized and funded a HUD modernization and assisted living conversion grant program in 2000, HUD has thus far only implemented the assisted living conversion program portion of the statute. NCR and AAHSA strongly recommend that both capital repair and assisted living conversion funds are released.

Thank you for providing National Church Residences the opportunity to testify on the Section 202 program. We are thankful for the leadership the Senate Special Committee on

Aging has provided in affordable elderly housing. We are pleased to be able to contribute to the committee's deliberation on these critical issues. We urge your support for the recommendations outlined in our testimony and we hope that our comments will assist you in helping steward federally-subsidized housing that is responsive to the critical role of housing within the long term care continuum of low income elderly people. If you desire additional information, please contact Tom Herlihy, Development Specialist, NCR, at 614/273-3529 or therlihy@ncr.org or Linda Couch, Acting Director of Housing Policy, AAHSA, at 202/508-9476 or lcouch@aahsa.org.

The CHAIRMAN. Well, Tom, thank you.

Ms. Hubanks, before I turn to you, let me turn to my fellow Senator from Missouri, Jim Talent, who has just joined us, for any opening comments he would like to make.

STATEMENT OF SENATOR JAMES M. TALENT

Senator TALENT. Well, Mr. Chairman, I want to thank you for holding yet another extremely relevant hearing. This is an issue that I encounter all the time in Missouri. It is one of the reasons I am so interested in what you all have to say. I am going to ask some questions, Mr. Chairman, related to something that I think we are all learning about how we should best provide services to people who need services, and that is, to the extent that the Government can push control down to some kind of integrated and local boards or local control mechanisms and have standards of accountability that measure performances rather than trying to measure so much the kinds of inputs that you have been talking about Mr. Herlihy, you know, in other words, what is the overall performance of boards or providers or developers in this case, how can we measure that and fund based on that rather than up front try and regulate everything people put into projects would—in other areas of social service, for example, that really speeds up and energizes this kind of work. So I will probably be asking questions along those lines.

But I am mostly here to listen, Mr. Chairman, and, again, thank you for holding this hearing.

The CHAIRMAN. Well, thank you very much for joining us.

Now let us turn to our last witness on this second panel, Lee Ann Hubanks, Executive Director, Plano Community Homes. Welcome.

STATEMENT OF LEE ANN HUBANKS, EXECUTIVE DIRECTOR, PLANO COMMUNITY HOMES, INC., PLANO, TX

Ms. HUBANKS. Thank you. Thank you for the opportunity to testify today. My name is Lee Ann Hubanks. I am the Executive Director of Plano Community Homes in Plano, TX. We currently operate 299 HUD Section 202 units and have another 60 in development. I am also here representing the American Association of Homes and Services for the Aging. AAHSA represents more than 5,600 mission-driven, nonprofits serving more than 1 million seniors each and every day, including the majority of HUD Section 202 sponsors.

Plano Community Homes has been building HUD Section 202 housing since it was established in 1983. We have also applied for additional grant monies to make the development process viable due to inadequate capital advances. We have full-time service coordinators and transportation on each of our housing campuses. We have over 300 seniors on our waiting list and have been working with the city of Plano, the Collin County Committee on Aging, and the Plano Housing Authority, which has about 1,500 households on its waiting list, to reach creative solutions in our own communities for our community's housing needs.

On behalf of AAHSA, I would like to share with the committee some specific recommendations for making the Section 202 development process more efficient. We concur that we need to increase the number and training of HUD staff so the development processes can move as efficiently as possible. Whenever there is a slowdown during the initial stages of the development process, it affects the cost and/or availability of the land. If HUD staffing or training levels are insufficient, the property is at risk. This in turn can put the entire project at risk. If land needs to be renegotiated because we miss opportunities, we must start back a square one and make our way through zoning issues and possible local opposition to affordable housing.

Second, we feel that we need to set adequate total development cost limits. These were increased substantially years ago but have remained static these last years. Given the strength of the real estate market, HUD needs to pay better attention to real-world development costs. Inadequate development costs inevitably lead to the time-consuming necessity to secure other resources. HUD's total development cost limits should be routinely reviewed and appropriately amended.

To implement the optional ability to leverage mixed financing sources like low-income housing tax credits and private activity bonds and use them in conjunction with Section 202 funds to build projects that are both larger and house a mixed-income population.

In addition, to provide technical assistance funds for site control and pre-development costs. Today, we are desperately looking to secure a piece of land to build 60 more Section 202 units. The current market rate for land in Plano is conservatively $4 to $6 per square foot. Under our cost constraints, the Section 202 program cannot afford land valued at greater than approximately $2.50 per square foot. Grants providing for up-front land purchase or land options would be a tremendous help.

Last, HUD should publish sample seed money costs as part of the annual Notice of Funds Availability. The NOFA could then act as a real-world guidance to nonprofits, especially those new to the Section 202 development program, on what resources are actually needed by successful applicants before any funds from HUD will be available. For example, AAHSA members report a wide range of up-front costs, ranging anywhere from $50,000 to $100,000. The range is often attributable to local zoning and permit fees, land purchase options, environmental reviews, the Minimum Capital Investment required in the NOFA, and traffic impact studies. Depending on the locale, there may be numerous other up-front costs associated with a Section 202 development.

We are committed to the 202 program. I have been doing this for almost 20 years, and it is a fabulous program. On behalf of all of the members of the American Association of Homes and Services for the Aging, I would like to thank you again for the opportunity to testify today, and I would be happy to answer any questions that I could.

[The prepared statement of Ms. Hubanks follows:]

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American Association of Homes and Services For the Aging

Senate Special Committee on Aging

June 17, 2003

"$5.2 Billion for Low-Income Senior Housing Not Reaching the Elderly – Why?"

Lee Ann Hubanks, Executive Director, Plano Community Homes

The American Association of Homes and Services for the Aging (AAHSA) is pleased to have this opportunity to testify on the Department of Housing and Urban Development's (HUD) Section 202 Supportive Housing for the Elderly program. We recognize the importance of the Senate Special Committee on Aging's review of the efficacy of HUD's only senior housing production program and look forward to working with you in the future. AAHSA represents more than 5,600 mission-driven, not-for-profit affordable senior housing facilities, nursing homes, continuing care retirement communities, assisted living properties and community service organizations. Every day, our members serve more than one million older persons across the country. AAHSA is committed to advancing the vision of healthy, affordable, ethical long-term care for America. Our mission is to create the future of long-term care.

AAHSA is the largest organization representing nonprofit sponsors of senior housing. Our members own and manage more than 300,000 units of federally assisted and market rate housing – and we represent the largest number of sponsors of HUD Section 202 Supportive Housing for the Elderly projects. Housing is a critical part of the long-term care continuum.

My name is Lee Ann Hubanks and I am the Executive Director of Plano Community Homes, which was formed in 1983 in suburban Dallas. Plano Community Homes' Board of Directors is made up of representatives from eleven churches and four civic organizations. Our Board membership spans eight denominations. We are a faith based, community sponsored organization. Plano Community Homes currently has two buildings built under Section 202/8 and three buildings developed by Section 202 with project rental assistance contracts (PRAC). Our original five buildings comprise a total of 299 units in Plano. We are currently looking to expand beyond Plano but still within Collin County, one of the top five growing counties in the 2000 Census. The City of Plano is about nine miles north of Dallas and has approximately 200,000 residents.

We have worked primarily with HUD's Fort Worth office but have had some dealings with HUD's Dallas office. We are fortunate to say our relationship with the Fort Worth office has been excellent. The staff of the Fort Worth offices are great partners and are always willing to answer questions and work creatively within the guidelines to get the results that everyone, especially the residents, needs. We have built a strong relationship with the Fort Worth Development team. For our three newest buildings, I did the grant applications myself and acted as consultant so that we could use those dollars toward land and start up costs. We were able to bring all three buildings in on time and at or slightly below budget. The main reason this happened was that the HUD staff worked with us at every step to make sure each was done properly and therefore did not have to be redone or fixed later.

The strength of our housing programs testifies to what can be accomplished with a good working relationship with the HUD office. We have full time Service Coordinators and transportation on each housing campus. We have over 300 seniors on our waiting list and have been working with the City of Plano, the Collin County Committee on Aging and the Plano Housing Authority (which has 1500 households on its waiting lists) to reach creative solutions to our community's housing needs.

HUD's Section 202 Program

The Section 202 program funds new construction in both urban and rural areas via construction grants and ongoing rental subsidy to both large and small nonprofit housing sponsors. Since its inception in 1959, the Section 202 program has provided housing for approximately 381,000 senior or disabled households in more than 9100 facilities (2002 Seniors Commission report). Currently, the program constructs about 5700 units a year of service-enriched housing affordable to seniors with very low incomes. More than 80% of residents have access to service coordination either through a HUD service coordinator or staff (37%) or through service coordination available in the community (44%). The average age of a Section 202 resident is 75 years and their average income is $10,014.

HUD's Real Estate Assessment Center surveyed multifamily housing residents in 2001. Of the Section 202 and 811 (housing for persons with disabilities) residents responding to the survey, 94.1% were satisfied with their unit/home, 92.3% were satisfied with their development/building and 91.4% were satisfied with their neighborhood.

The role of nonprofit organizations like Plano Community Homes is critical to the long-term success of the Section 202 program. Long after our 40-year contracts to provide affordable, supportive housing for very low income seniors have ended, Plano Community Homes will still provide such housing to this population. It is our mission and calling to do so. Every Section 202 grantee is a mission-driven nonprofit.

Improvements to the Section 202 Development Process

In general, the Section 202 works as well and as efficiently as any other housing production program (whether HUD-subsidized or not). However, where there are delays in the development process, AAHSA agrees with many of the underlying causes identified by the 2001 Arthur Andersen report. There is no single answer to the complicated maze of affordable housing development. Rather, there are at least several solutions AAHSA recommends be reviewed and implemented to improve the efficiency of the development process:

- Increase the number and training of HUD staff so the development processes can move as efficiently as possible. Whenever there is a slowdown during the initial stages of the development process, it affects the cost and/or availability of the land. If HUD staffing or training levels are insufficient, the property is at risk; this in turn can put the entire project at risk. Minimally, such delays will affect the price we pay for the land. If land needs to be renegotiated because we miss opportunities, we must start back at square one and make our way through zoning issues and possible local opposition to affordable housing.

There is much work to be completed by the local HUD office after nonprofits submit funding applications, including eight technical reviews of the applications and the calculation of project rental assistance and capital advances. This is staff-intensive work and must be completed before any subsequent portions of the timeline can be accomplished. Downsizing, staff turnover and lack of training can put strains on these initial reviews.

The Arthur Andersen report notes that there are 51 HUD offices handling Section 202 applications. It would be worthwhile to learn more about where pipeline delays stack up geographically. Of course, such clustering could be a function of other issues beyond HUD staffing (inadequate total development costs, state or local requirements, land issues, inexperienced nonprofits, etc.).

- Provide technical assistance funds for site control and predevelopment costs. Today, we are working desperately to secure land to build more 60 more Section 202 units. The current market rate for land in Plano is four to six dollars a square foot. Under our cost constraints, the Section 202 program cannot afford land valued at greater than $2.50 per square foot. Grants providing for up-front land purchase or land options would be a great help.

- Set adequate total development cost limits. These were increased substantially years ago but have remained static the last two years. Given the strength of the real estate market, HUD needs to pay better attention to real-world development costs. Inadequate development costs inevitably lead to the time-consuming necessity to secure other resources. Leveraging of other resources is a worthy option for reasons discussed below, but should not be an unexpected obligation. HUD's total development costs limits should be routinely reviewed and appropriately amended.

- Implement the optional ability to leverage mixed financing sources like low income housing tax credits and private activity bonds and use them in conjunction with Section 202 funds to build projects that are both larger and house a mixed-income population.

- HUD should publish sample seed-money costs as part of the annual Notice of Funds Availability (NOFA). The NOFA could then act as real-world guidance to nonprofits, especially those new to the Section 202 development program, on what resources are needed by successful applicants before any funds from HUD will be available. For example, AAHSA members report a wide range of up-front costs (from $50,000 to $100,000). The range is often attributable to local zoning and permit fees, land purchase options, environmental reviews, the Minimum Capital Investment required in the NOFA and traffic impact studies. Depending on the locale, there may be numerous other up-front costs associated with a Section 202 development.

- Offer extra points on the Section 202 application for nonprofits experienced in local housing development or those that partner with experienced nonprofits.

Predevelopment Grants
PCH and AAHSA commend Congress for authorizing $25 million in FY03 for technical assistance predevelopment grants. Technical assistance funds, which were also available prior to fiscal year 1992, could assist nonprofits with some of the myriad costs outlined above that nonprofits incur before the properties reach initial closing (when the nonprofit can take its first draw on HUD reimbursement). AAHSA does not support separate grants for the construction and ongoing rental subsidy of Section 202 properties, however.

It is our experience at Plano Community Homes that securing land is by far the most difficult piece of the Section 202 process for the small sponsor. We anticipate that the yet-to-be-released technical assistance predevelopment funds will help small nonprofits like ours secure land for affordable senior housing development. We have no foundation behind us and therefore no existing capital to buy land outright and hold it until we are funded. Plano Community Homes must ask the owner of the land to sell on a contingency based on the hope that we are funded, and then wait at least 18 additional months to bring the sale to closing. We must usually do this while simultaneously offering a price at or below fair market value for the land. As one can imagine, owners tend to be reluctant to agree and the cost of land is at a premium since owners must wait many months before we can go to closing.

Both AAHSA and PCH support recommendations made today by National Church Residences relating to the importance of preserving the existing housing stock, including speeding up the review and approval of refinancing applications, enacting exit tax relief for current owners, establishing a right of first refusal for Section 202s to purchase at-risk, federally-subsidized elderly housing, authorizing and funding grants to eligible nonprofits to acquire at-risk properties and releasing modernization grants to repair older properties.

Conclusion

Thank you for providing AAHSA and Plano Community Housing the opportunity to testify on the Section 202 program. We are thankful for the leadership the Senate Special Committee on Aging has provided in affordable elderly housing. We are pleased to be able to contribute to the committee's deliberation on these critical issues. We urge your support for the recommendations outlined in our testimony and we hope that our comments will assist you in helping steward federally-subsidized housing that is responsive to the critical role of housing within the long term care continuum of low income elderly people. The future of the program will be guided not just by its funding levels but also by consistent administration of the program by HUD field offices, reasonable interpretations of statutes and rules, and by giving nonprofits the tools they need to best serve low income seniors. If you desire additional information, please contact Linda Couch, Acting Director of Housing Policy, AAHSA, at 202/508-9476 or lcouch@aahsa.org.

The CHAIRMAN. Thank you very much. We appreciate your testimony.

Tom, if we could get you to move a little this direction, Cynthia, move a little this direction, we are going to get a chair and ask Dr. Weicher to come and be seated then, and we will proceed with our questioning. Again, Doctor, we appreciate your willingness to stay. Actually, there is another chair coming there that will probably—it might seat you a bit higher.

Again, let me thank all of you for your testimony and your involvement in this program, and as we analyze it based on the work that GAO did and obviously the testimony already of Dr. Weicher and the work that is underway as a result of the audit and their review of programs and their commitment to them.

Doctor, let me first ask you this question: I have here the application book. I find that in itself daunting. Is it really necessary that we ultimately require that much information? This is not a staged involvement here, but Tom brought an application that is a product of this book's requirements. Let's put the chart back up, if we could, the 18-month process chart. Obviously, when Congress appropriates money for these programs, recognizing the need that we believe is out there, and, of course, a backlog that was clearly demonstrated that you have already spoken to that you have come a long way toward reducing in a significant way. In fact, let's just put all the charts back up because that backlog is demonstrated there.

Let's talk about the 18-month process and the application itself and the adequate funding necessary to do that. Could you respond to those questions? Are you examining them, looking at them, reviewing them? Is 18 months a reasonable time to assume? I know that you are dealing with issues that were 4 and 5 years in pipelines. That is totally unacceptable as far as I am concerned. But 18 months appears to be a long period of time when we deal with properties and money values and obvious needs.

Mr. WEICHER. Well, Mr. Chairman, first, if I may say that four and five years is totally unacceptable to the Secretary and to the Department and to the Administration as well, and that is why we have made it a priority and have, I think, largely succeeded in eliminating the backlog of the aged pipeline, as I referred to it.

With respect to the application process, we intend—I mentioned in my statement that we plan to meet with stakeholders during this summer to talk about the GAO recommendations and their other concerns, and we intend to take a look at the concerns that they raise, and that would certainly include the application process in the handbook.

May I say that these projects are complicated, and we recognize that it can be daunting when you first begin to try to apply for a Section 202 project. We do have a demand for funds by prospective project sponsors that is well in excess of the funds that are appropriated annually by Congress. We try to make sure that we select projects which meet needs and which are a good prospect to be completed within the 18 or the 24-month period, including the 6-month extension allowable in the field.

The CHAIRMAN. Let me understand again. In the GAO study released in May, obviously we all focused on the $5.2 billion in unexpended funding. It is my understanding that it breaks approximately this way: about 48 percent is tied to units that are already occupied, and that is rental assistance money. Is that correct?

Mr. WEICHER. Yes, that is correct, Mr. Chairman. As I mentioned, from 1991 to 1994, Congress appropriated project rental assistance on a 20-year basis, and so those projects have a good half and more of the original 20-year contract money still unexpended. Beginning in 1995, Congress established the project rental assistance contract on a 5-year basis. Those projects since then have 1, 2, 3, 4, and for the newest projects 5 years of rental assistance. Those balances also—all of those balances for both groups of projects spend out year by year as the project is occupied and as Congress intended.

The CHAIRMAN. That money is obviously appropriated, it is in the treasury, you draw on it to meet these commitments. Is that the process that works?

Mr. WEICHER. That is correct, Mr. Chairman. That is correct.

The CHAIRMAN. The balance, 52 percent, then would be money appropriated for the purpose of the actual construction itself, I mean the development of the facility.

Mr. WEICHER. The rental assistance contracts associated with those projects which have not yet been completed and occupied.

The CHAIRMAN. So it is a combination of both.

Mr. WEICHER. It is a combination of both.

The CHAIRMAN. How does that break out?

Mr. WEICHER. It breaks down about 80 percent capital advance and 20 percent project rental assistance contract. I might say that a substantial share, half of the remaining money, a quarter of the total, $1.3 billion, are the funds that Congress appropriated in fiscal year 2001 and 2002 and which, by the time of the GAO study, were still within the HUD guidelines, the HUD processing guidelines. That money is not yet late. Those projects are not yet in the pipeline in that sense. We expect to complete, as we have been doing, we expect to complete more than half of those projects within the 2-year period as we did for the year 2000 projects and as we have done in earlier years as well and then bring most of the remainder to closing within a third year. That is the track record, and that is the record we have established and we are building on.

The CHAIRMAN. OK. With that, let me turn to my colleague, Senator Talent. Jim?

Senator TALENT. Yes, let me follow up the discussion that I had and maybe ask some—the point I raised before and then maybe ask some specific questions.

There are people sitting at this panel probably collectively with decades and decades and decades of experience in providing this housing to elderly people. Now, think outside the box a little bit. Would it be possible to short-cut some of this by establishing in communities some type of boards or control organizations that represent the various stakeholders, the nonprofits that had been doing this, to develop a procedure—maybe we could do this on a pilot basis—where you knew up front that certain funds were going to be available. You all know basically what the guidelines are, and knowing that those funds were going to be available, one of the things I have found in other areas is that makes it easier to leverage dollars. If we sort of lifted some of the regulations and some of the oversight regarding the specifics of these projects, and instead you knew that certain pools of funds were going to be available, you could go ahead with more discretion on your own and then periodically you would have audits and the HUD people would come by and check on how you are doing. I mean, how different would that be from what you are now doing? Is that model, in your judgment, at all workable in this context? Are there too many local regulations? Is there a danger that somebody might use money unwisely? I mean, would it be possible to sort of transcend these problems a little bit by changing the way that we do this so you don't have to have specific applications for every project?

Does anybody want to comment on that?

Ms. HUBANKS. I would like to answer that. We are a very small organization. NCR and VOA are wonderful programs, and they are much larger. They have different resources than we do. We don't have a foundation behind us. Something like that would be wonderful for us to be able to do as a small organization. We have got experience because we have done this before. We are not coming into it brand new. Somebody coming into it brand new may have some difficulties. It may work different in other communities.

We work very closely with our city and with our Committee on Aging in the county. So for us that would be a very workable solution.

Senator TALENT. Mr. Herlihy, you mentioned you built a sidewalk that basically didn't connect anything up. Now, I don't imagine this happens a lot. I have seen this process from when I have nonprofits in my area contact me and they want help with an application, or I go out and visit a project and there is an awful lot of great work being done out there. I think we all feel that.

Is there some way of expediting this in part by changing the way in which we apportion this money so that once we certify or once we have a set of providers who we trust that have a proven record, we simply allow them to make these decisions without having to have it overseen so much by the Government? Then what the Government does is check periodically to make sure everything is going well, and then check on the final outcomes? Would that speed the process up? Could we do that effectively?

Mr. HERLIHY. We, in essence, do that in part right now in that we a lot of times target a community. We go in and work with them ahead of time prior to our application and get things set up essentially in the local community in preparation of an application. But still quite often in doing that you still have to go through the zoning process.

Senator TALENT. I know that zoning is a problem no matter what you are trying to build anywhere.

Mr. HERLIHY. I guess I would be a little leery of that. I would hate to see any significant amount of funds being expended ahead of time without the absolute commitment in set-up that it is going to be a facility, would be one of my great concerns.

Senator TALENT. OK. Ms. Keller, you mentioned in your statement that funding from the latter sources, that is, private foundations, et cetera, are often quite difficult to obtain and many private foundation grants are incompatible with Section 202 program requirements. What did you mean by that, "incompatible"?

Ms. KELLER. Well, we have on occasion received funding from the Weinberg Foundation, but HUD has indicated to us that we can't use it, that it is not compatible with the 202 program, so we have had to turn it back. Like Tom was saying, when we are having to do sidewalk/street improvements, HUD doesn't permit you to use HUD funds for anything outside the perimeters of the site. So we will have to go to the city to try to get grants, foundation funds, for anything outside the perimeters, and it is not unusual for sidewalks, walking paths, widen the roads, put in street lights. Generally what will happen with us is maybe there are $400,000 or $500,000 in outside funding we get. The city will give it to us, and then we turn right back around and hand it back to them for the improvements that we have to do in that city.

Senator TALENT. That probably all takes time, too, doesn't it?

Ms. KELLER. A lot of time, and it is a competition. You submit applications, usually a lot of excerpts from what you have, your plans, your specs, to the city. You are competing with everybody else in that city for those same funds.

Senator TALENT. My sense usually——

The CHAIRMAN. let's——

Senator TALENT. Go ahead.

The CHAIRMAN. You know, let's pursue this together because there is a common thread here that obviously what I have found interesting is that the right hand is 202 and the other hand is CDBG monies, and it is all HUD money. That tranche of time when you have found out that the project is inadequately funded, to go out and find other sources of money to package it all together to get a final product is apparently quite substantial in 95 percent of the cases. Is that what you said, Tom?

Mr. HERLIHY. No, I didn't throw that number out.

The CHAIRMAN. OK, but one of you used the figure——

Ms. KELLER. I said 90.

The CHAIRMAN. You used the figure of 95 percent of the cases require additional monies to complete a project, and some of that money is HUD money.

John, maybe you could speak to that or we all could collectively. I find it fascinating that we cannot do one-stop shopping if, in fact, we have a qualified project that meets all of the requirements of HUD, why HUD can't fund it completely. Or is there an intent or a purpose to find leverage? I can understand the value of leveraging private dollars or finding dollars outside of the Federal trough. But when it is going to different locations at the trough and it takes 5 or 6 months or more and that 18-month period becomes a reality, that doesn't make a lot of sense.

Mr. WEICHER. Mr. Chairman, let me say with respect to CDBG money that that money is given by the Department, by the Federal Government, to municipalities and States to be spent as they see fit on the purposes of community development. Once we provide them with the funds, it is their choice as to whether those funds should be just to support——

The CHAIRMAN. Yes, I know that. I mean——

Mr. WEICHER [continuing.] A Section 202 project or something else. In that sense, I don't think it is really going to HUD twice. It is going to HUD for the 202 money, and it is going to the local government for local government sources, some of which come from the Federal Government.

With respect to the question of how we—of the level of funding for an individual project, our choice essentially, Mr. Chairman, is: Do we provide full funding for a smaller number of projects or do we provide partial funding and try to use it as leverage, as you said a moment ago, try to use it as leverage for a larger number of projects?

There is no perfect way to answer that question. The way we have chosen to answer it is to try to stretch the resources which we have, $780 million a year in the 202 program, stretch those resources to provide help in more places than we could if we went on a 100-percent basis, but not to stretch it so far that we simply can't get projects built. That is always a judgment. It is always a balancing call, and I am sure that in some cases the balance we strike is not the balance we would strike once we have been through the process.

The CHAIRMAN. Yes, Tom.

Mr. HERLIHY. I would just like to add to that that does make a certain amount of sense also the way that it is done. For example, a project that I recently developed in Denver, in the city of Aurora, they had unusually high, what I will call impact or development fees, local fees. Their local fees were approaching $300,000 for a 202 that I was developing. We went to the city of Aurora for CDBG funds basically to pay for their impact fees.

Many of the other development costs, cost of construction and so on, were fairly close online, but it was those local impact fees that really pushed it over the budget.

The CHAIRMAN. Well, I guess the question that I would ask of you, John, and then maybe those of you who are out there in the field have had this experience, of the eligible applications—"eligible" meaning, obviously, they have demonstrated the need, they have come a long way—how many are denied because they cannot put the final or complete funding package together? Are there a number of denials out there where there is clearly the need, everybody qualifies, except they can't come up with all of these other monies and, arguably, therefore, HUD had inadequately funded and, therefore, denied? Do you know that?

Mr. WEICHER. Mr. Chairman, I don't know that because we don't—that is not an aspect of the application which we report on.

I do know that the competition is fierce, and the scores, the winning scores in individual multi-family hub areas, the 51 areas around the country through which we provide funds, the field office we have scores, in many places winning scores in the 90's and scores that do not quite qualify only a point or two lower. We see very many well-qualified applications, and we try to select the best of them from those applications.

It is also quite typically true that applications which fall short in this year, just barely fall short in this year, are, in fact, successful applicants the next year with the same, essentially the same application.

The CHAIRMAN. I ate into your time.

Senator TALENT. No, that is OK, unless you are watching the clock very carefully, Mr. Chairman.

Ms. Keller, why couldn't you use those foundation funds that didn't meet HUD program requirements, do you know in what respect it didn't?

Ms. KELLER. At this point in time they were sent to the local HUD attorneys, and we have had this happen in three offices, that the repayment schedules or the terms of the grants weren't compatible with the laws regarding the 202 financing program. There was something in that language that did not coincide with the language of the HUD deed, mortgage, HEP requirements, contracts. Specifically, I cannot tell you.

Senator TALENT. Those of you who are doing this in your communities, are there a lot of instances in this process where you can't use certain funds or you have to use money for something or there is a delay while you are waiting for an approval where you are looking at it and you are saying, you know, I have been doing this for an awful long time, I would not be going through this exercise if I had the discretion to do this the way I wanted, this isn't adding any value, this isn't helping us provide better housing. Is this a constant experience that you have in this process?

Ms. KELLER. For me it is not. I can't speak for everyone else. But, you know, when you go to a grand opening and some elderly person comes up and puts their arm around you and tells you they didn't have heat until they moved in or they were living in their car, then it is worth what——

Senator TALENT. It makes it all worthwhile. What I am getting at is that we are moving—there is a trend in the country which I think is very good to vest more discretion in the people who are actually providing the service to the seniors. To the extent that we can do that, it allows you all to do what you think makes sense in terms of the vocation and the mission that you have which works better for the seniors. If I can get the process to move in that direction, it reduces delays, allows money to be used more efficiently, allows you more flexibility in drawing dollars from other areas. That is what I am suggesting here, but I don't hear you all saying that you feel like we need any kind of a systemic change in that sense. [No response.]

No.

Ms. Hubanks, would you tell us some of the specific things you have done with the Fort Worth office? I mean, evidently you are having great success dealing with them. What are some of the things they are doing to shorten the time?

Ms. HUBANKS. Well, one of the things that we have done is we have worked with the architectural specialist in advance so that by the time we get ready to submit our documentation, we have pretty well been through it together so that it is much easier for him to look at and approve. We have kind of done that step by step as we have gone through the process to make it so that we are kind of all working together.

If I turn it in as is and they have not seen it, it takes a great deal longer for them to process. So we have tried to work together.

Senator TALENT. To just try and do as much as you can to get it approved before the actual process starts.

Ms. HUBANKS. Right, so that when we turn it in, they know exactly what is coming, we know exactly what they are looking for, and we have been able to work out the little bugs in the system.

Senator TALENT. I wonder, John, if HUD, when you get reports that an office like this is really working in an unusually good fashion to expedite this process, whether there is some process you have within the agency to bring other people in for training or demonstrations or replicate that kind of model in other places. Is there something internally you all do to try and take a successful model and replicate it?

Mr. WEICHER. Well, as we said, and as all of the participants have said, we began to train staff in how to implement 202s, how to process 202s, last summer, in 2002, for the first time in 10 years. We have additional training scheduled this year on the technical implementation issues. Certainly part of that training is learning—some people who have done well telling other people, and, of course, part of it also is that when you have somebody from every part of the country together there, they do a lot of talking on the side, after hours, between sessions, over dinner. We think that is important, and we intend to continue it.

Senator TALENT. Thank you, Mr. Chairman.

The CHAIRMAN. Well, thank you.

You have just answered a follow-up question I was going to have, John. Are you institutionalizing this on an annual basis or every two years or whatever?

Mr. WEICHER. Well, we hope to do it annually. It really will depend on the availability of training funds. But we are trying to do it this year and we hope to continue.

The CHAIRMAN. Well, I think private America has found that an extremely valuable thing to do, especially in large companies, for the right hand and the left hand to sit down together and compare. Oftentimes, you are right, it is the conversation at the evening meal where one says, you know, in Texas we are doing it this way, and somebody in Pennsylvania says, well, I will be darned, that makes sense, we hadn't thought of that. That does help in these ways, and much of that, of course, can be done inside existing regulations.

David, you mentioned that you are continuing to track the progress HUD is making in light of the audit, the recommendations of that audit, and Dr. Weicher spoke to several of those. Will GAO consider doing a follow-up analysis of work in progress a year out from the study? I think that would be extremely valuable for this committee to revisit the dollars and cents, the applications, the timeliness. Obviously, Dr. Weicher is having successes of the kind that are respectable and appropriate, and that pipeline appears to be getting drained out. I think it would be extremely important for all to do such.

Mr. WOOD. Yes. In terms of the specific work we do, we obviously respond to requests from committee chairmen. We do have a process for routinely following up on recommendations from any of our reports. We also, of course, every two years do the performance and accountability series where we try to summarize for each department management problems that we see across the department, and a couple are very relevant to this 202 program at HUD. For example, we designated human capital management as a department-wide issue which gets into the adequacy of staff training and skills and so forth. But, yes, we would be happy to consider that.

I just wanted to add also, on this issue of differences among offices, we do have data—it is in an appendix to our report—where we looked at the performance of each of HUD's 45 field offices that deal with 202 projects and there are data in there. So that would be a good starting point for HUD to find out why some did so well and others did not.

The CHAIRMAN. Thank you. That would be extremely valuable.

Dr. Weicher, what is HUD doing to document—I guess I am trying to understand. I thought I did understand, maybe not as clearly as I should have. You talk about scoring projects. Do you look at or is there an effort to determine—you didn't choose to use the word "leverage." I used it. Is there a way to look at how monies are put together beyond what HUD is willing to participate that in? In other words, is there an examination of additional costs incurred by the nonprofits?

Mr. WEICHER. Well, there is an assessment of whether the project can be covered by the funds that are available, and it is always a factor to look at the ability of the sponsor, the track record of the sponsor in successfully completing 202 projects, either entirely within the funding for the project as allocated by us or by bringing in additional outside sources.

I certainly recognize that it is sometimes a complication to have to bring additional funding sources to the table, and as I said, "We try to strike a balance to make the funds go effectively as far as we can."

The CHAIRMAN. How much additional cost in time—and I used to sell, broker real estate, so I understand that when you have got a piece of property out there that is valuable but you can't get the money for 12 months for it, sometimes owners just say the heck with you, we have got another buyer down the road. In hot economies, that oftentimes happens, and, therefore, it is money lost and, therefore, property becomes more valuable. But has there ever been an assessment of the additional costs incurred by the time it is required of the nonprofits to go out and secure the additional monies to make a project, to complete, and, therefore, a certifiable project?

Mr. WEICHER. Not to my knowledge. Certainly not in the two years in which I have been Assistant Secretary for Housing. This is an issue that we would expect to discuss with the stakeholders when we get together with them later.

The CHAIRMAN. Something else concerns me, and maybe Tom and Cynthia wouldn't like to hear this. But when I see an application of that size and an application instruction book of that size, I react to it by saying, now, if I have got a skilled professional staff and I am in the business, and I have been there a while and I am good at it, I can make this happen. But if I am not good at it, if I am new to the business, if I am small, if I am struggling, and the needs are still out there, I probably am not going to make it. I can't wade through—I am quite Tom's and Cynthia's organizations have systems and talent that produces these things on their computers and grinds them out and probably has a software package that does it for them in large part once they have fed the information in. They are sophisticated, big organizations. Are we creating an application process that clearly leans toward them? Therefore, are we eliminating others that should be eligible and capable of acquiring these as nonprofits for their communities and the seniors? Has there been any evaluation of that?

There is no allocation of small business in this instance, is there?

Mr. WEICHER. No. These are all nonprofits to begin with. It is not a small business——

The CHAIRMAN. Well, nonprofits is not a definition of size.

Mr. WEICHER. I know that, but it is not a small business issue. I can tell you this, Mr. Chairman: I look at the list of winning applications and I look at the list of those which do not win each year. We have a range of successful applicants, including the local affiliates of the organizations that are here at the table, and also including purely local organizations. This is an important program to faith-based organizations. About half of our projects, successful applicants, are, in fact, religious organizations.

The CHAIRMAN. That is my understanding, yes.

Mr. WEICHER. Some of them are individual congregations. We fund applications from this particular church or this particular synagogue or this particular temple as well as applications from Volunteers of America in Ohio and so on. We certainly expect that as you are more used to the program, you will find it easier to work with, but we do have this broad range of successful applicants.

The CHAIRMAN. OK. Cynthia, you provided us with a list in your testimony of valuable suggestions. If you could change one thing in the current 202 program, what would it be?

Ms. KELLER. Eliminate the requirement to seek outside funding.

The CHAIRMAN. OK. Tom, what would be the one thing you would eliminate or your organization would?

Mr. HERLIHY. I would like to see the application process simplified and, consequently, the review and award time could be reduced, I believe.

The CHAIRMAN. Have you ever done an analysis of those items that you would want to take out of it that could bring that and condense that down, let's say, from 18 months to 12 months? Because my guess is you go to 18 and well beyond.

Mr. HERLIHY. I could do that fairly easily, yes. I have got a number of items here marked out where that could be done.

Senator TALENT. Mr. Chairman, would you yield for just a second?

The CHAIRMAN. I would be happy to.

Senator TALENT. An addendum to that, Mr. Chairman. What about a program where, if you have done this successfully a number of times, you get some kind of a status? Like the SBA has a preferred lender program. They can do low-documentation type applications. So at least if you have a record of success and HUD knows they can trust you, then you can file less of an application, something like that. Is there any reason we couldn't do that?

Mr. HERLIHY. That is what I am alluding to or that is what I am suggesting, basically.

Senator TALENT. Yes, for somebody who has a record, and then the new nonprofits, Mr. Chairman, could maybe partner with those who are already in and learn that way. You could mentor them.

Mr. HERLIHY. Which is also what we do when we cosponsor an application with a local organization Senator Talent. One more thing to Ms. Keller?

The CHAIRMAN. Please.

Senator TALENT. You talk about eliminating that requirement, which—in my observation is where nonprofits can use Federal money to leverage other dollars, they do it. They don't have to be told to do it. If we did eliminate the requirement, it doesn't mean you wouldn't be out trying to get additional funds, does it, Ms. Keller?

Ms. KELLER. Correct. Basically what happens during the time we are trying to get those funds, though, it is the processing time itself. Labor costs are going up. Materials are going up. We are forced to build a facility with bare minimum materials, which, in the long run cost HUD more money in the way of subsidy to cover maintenance costs, because we are having to buy inexpensive materials that have to be replaced maybe in 5 years rather than 9 or 10 if we had bought quality materials in the first place.

Senator TALENT. What you are saying is if we had a system that was flexible enough to leave it up to the nonprofit and maybe provide some incentives to leverage more dollars, you could use it for some way that you wanted to, then you would do it where you could. But if you needed to make a judgment that in order to hold down the cost of the project, you had to go ahead entirely with the Federal dollars, you would. That is the kind of flexibility you are aiming for, right?

Ms. KELLER. It is, and sometimes we will go ahead and submit the application to HUD saying we have grants pending, but if they don't—if we are not approved, could you go ahead and ask for the amendment money? But in most instances, HUD is going to wait and see if we got the outside funding first. Or sometimes they will ask us, try this fund, this fund, this funding source before you come back to us, which delays the process.

We did just partner with Hopewell Baptist Church in Missouri, and we are funded. It is going to construction soon, and partnered with a local housing authority in St. Louis. So we have done a lot——

Senator TALENT. I am just aiming for a system, Mr. Chairman, where we really trust the people who are doing this because they have the heart to do it. Nobody is doing this here. They are nonprofits, and if we adjust the system more in that direction, you end up reducing delays. Money goes further. You are able to make a good program even better.

Thank you, Mr. Chairman.

The CHAIRMAN. The thing that concerns me is what Cynthia just said. When you put out a bid to construct something and 12 months later you break ground and your costs of construction have gone up 10 percent but you are locked into a fixed amount and you have got to start scaling down quality, you are scaling down long-term viability of that unit, usually, or ultimately that happens.

Lee Ann, let me ask you the question that I have asked both Tom and Cynthia. In your experiences, what would be the one thing you would like to have changed?

Ms. HUBANKS. We are a very small organization, and we were funded in 1993, 1995, and 1996, and in each case I did those applications myself. I had packets that looked very comparable to this.

For us, the biggest problem that we have got is the up-front expense. We are very small. We don't have a foundation behind us. So we are always out looking for additional funds. We have used the community development block grant on multiple occasions to purchase land because we can't get the process that takes so long, we can't get people to wait on us for 6 months on a contingency while we wait to find out if we are funded, and then another, you know, 12 months before we close.

So once we are funded, we use the community development—the project rental assistance contract and the fact that we were funded for building the building as the collateral then to go get the funding to pay for the land and then we turn it in to HUD and run the process. So we add an extra step in there that we may not normally have to do or some of the larger organizations might not have to do.

So for an organization the size of mine, having some pre-development costs for fixed costs, for hard costs, would be tremendously helpful. But separating the 202 from the project rental assistance would be devastating for an organization like mine.

The CHAIRMAN. OK. Well, I thank you all. I think we have covered the area quite well. John, I must tell you that the work that is underway is good to hear about, pleasing to hear about. The workshops, the training are critical. Working with the nonprofits, questioning them, quizzing them about what they would see different I think is also important. We expect accountability. It is your responsibility.

At the same time, we don't expect a bureaucracy that isn't viable and flexible and demonstrates the reality of the marketplace. If we are running up costs in construction abnormally and, therefore, depleting the value of the appropriation for the purpose of getting housing out, that is something that I think concerns us all. I am not suggesting we are doing that, but if we extend time out there in an active real estate market and in an active market, then we may be in part doing some of that.

There is no question about need, and that is what this committee is concerned about. Most communities across this country find a need for this kind of housing and a good number of our seniors in that kind of situation where this kind of housing can dramatically improve their lives. So we are concerned about it. We will wish you the best and revisit you in a year.

Mr. WEICHER. Thank you, Mr. Chairman.

The CHAIRMAN. We will look forward to having you back to review and, David, we will look at where we might track with you so that we see work in progress that is sustainable and institutionalized. I think that is what is increasingly important, that we not find ourselves in the situation you found yourself in, and that is, years and years out there of applications stacked up and progress uncertain. We are glad you have tackled that, and we are glad the President and the Secretary laid that charge down. It was critically important that we do so.

So, again, let me thank you all, and, John, let me especially thank you for taking the time to stay, to listen, and to respond to questions, and we appreciate all of your testimony.

The committee will stand adjourned.

[Whereupon, at 11:23 a.m., the committee was adjourned.]

APPENDIX

Prepared Statement of Senator John Breaux

I would first like to thank Chairman Craig for holding this vital hearing on housing for the elderly. I would also like to take this opportunity to thank all of the witnesses who have come before us to testify today. Your testimony will be of great value as the Committee works to address some of the critical challenges that exist in providing housing to our nation's seniors.

The need for affordable housing for the elderly is great. It has been estimated that nearly 3.3 million elderly households have what is defined as "very low incomes." To address this need, the Department of Housing and Urban Development's Section 202 Supportive Housing for the Elderly Program was developed. This program serves as a resource for developing housing for low income elderly households and is the only federal program devoted exclusively to providing this type of housing. Due to the population it serves and its very important mission, it is imperative that HUD's Section 202 program run efficiently and effectively.

Today we will hear from witnesses who will discuss some of the problems associated with applying for and receiving funding to develop Section 202 housing projects. We will also hear from the General Accounting Office, which today released a report today Chairman Craig and I requested. Unfortunately, it appears that the Section 202 housing program is currently neither efficient nor effective. I hope that this hearing is the first step towards fixing these problems. Those seniors who have the greatest needs, should not be left waiting for an affordable place to live.

Thank you once again Mr. Chairman for holding this important hearing. I look forward to hearing from our witnesses.

Testimony of
Paul Hazen
President & CEO
National Cooperative Business Association

and

Douglas Kleine
Executive Director
National Association of Housing Cooperatives

Before the
U.S. Senate
Special Committee on Aging
Hearing on
$5.2 Billion for Low-Income Senior Housing Not Reaching the Elderly: Why?

June 17, 2003

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Richard Dines
June 10, 2003

Good afternoon and thank you, Mr. Chairman and members of the committee, for the opportunity to testify on behalf of the National Cooperative Business Association and the National Association of Housing Cooperatives about the need to include cooperative housing for seniors as an option for projects funded under the Section 202 Supportive Housing for the Elderly Program at the U.S. Department of Housing and Urban Development.

We are Paul Hazen and Douglas Kleine and we are President & CEO for the National Cooperative Business Association, or NCBA, and Executive Director for the National Association of Housing Cooperatives, or NAHC, respectively. NCBA represents cooperatives and cooperative service organizations across all industries including agriculture, food retail and distribution, childcare, energy, finance, housing, insurance, childcare and many others. NAHC represents housing cooperatives and housing cooperative professionals.

NCBA

NCBA provides a broad range of services to its members in the areas of public policy, business development, and education. NCBA was founded in 1916 as the Cooperative League of the U.S.A. and we have a long and proud history of helping develop cooperative businesses to meet people's needs. After World War II, we were instrumental in founding CARE, the Cooperative for American Relief Everywhere, to address the economic reconstruction of a devastated Europe. In the 1950s and 1960s, we began our work helping to organize cooperatives in the developing world to assist groups of consumers and producers access the marketplace. In the 1970s, we led a national campaign to establish a National Cooperative Bank to meet the credit needs of non-agricultural cooperatives. Today, the National Cooperative Bank is a national leader in providing financing for cooperative homeownership. In the 1980's, we launched an effort to revitalize rural America through a network of cooperative development centers that would provide technical assistance to groups forming new co-ops in rural areas. That effort resulted in the Rural Cooperative Development Grants program at the U.S. Department of Agriculture and a national network of centers called CooperationWorks helps rural cooperatives across the country.

NAHC

The National Association of Housing Cooperatives was founded in 1950 to provide information on the creation and operation of housing cooperatives. NAHC helps low and moderate income families govern, manage, and preserve affordable homeownership communities for themselves and future residents. 1.2 million families now live in townhouse and apartment housing co-ops in 30 states, the District of Columbia, and Puerto Rico.

What is Cooperative Homeownership?

While everyone is familiar with homeownership through fee simple ownership of a single-family home or a condominium unit, the option of owning one's home through a cooperative is much less understood. In a cooperative, residents own shares of the cooperative corporation that holds title to the entire multi-family property. Ownership of a share in the cooperative entitles the residents to sole occupancy of their units. Instead of rent, the resident-owners of the cooperative pay monthly carrying charges to cover the cooperative's debt and other expenses. As in other types of cooperatives, the resident-owners elect a board of directors from among themselves to make policies for the cooperative.

Housing cooperatives can be "market-rate" or "limited-equity". In a market-rate housing co-op, the value of the resident-owners' shares can fluctuate and the market determines the price at which they can sell those shares. In a limited-equity housing co-op, the value at which shares in the co-op can be sold is controlled by the governing documents of the cooperative and is usually limited to the value of any improvements made to the property plus an incremental annual increase. This enables the cost of buying a share in a limited-equity housing co-op to remain affordable for as long it remains a limited-equity co-op.

Why Does Cooperative Homeownership Make Sense for Seniors?

Because limited-equity cooperative housing can remain affordable in perpetuity for seniors wanting to live there, this option works for low-income senior housing. Since it offers homeownership, cooperative housing makes it possible for seniors to retain control over their housing and their lives. The resident-owners are able to preserve their hard-earned home equity and continue to experience the tax benefits of homeownership. Maintenance expenses are minimized because of the economy of scale made possible through cooperative living. Independent living is achieved through accessibility and support and interdependence is achieved through community and shared responsibility.[1] The independent living achieved in these co-ops can also help keep people out of the much more costly long-term care system, saving federal money spent on these programs.

Cooperative housing offers safe, affordable, and decent housing to seniors in rural and urban America. Homestead Housing Cooperative was a nonprofit organization established in 1991 to assist rural communities in developing senior housing cooperatives. Through 1998, when it ceased development operations, Homestead worked in 34 rural communities in Minnesota, Iowa, and Wisconsin and helped build 358 units of senior cooperative housing in 17 of those communities. Residents of these cooperatives generally feel extremely positive about their quality of life.[2]

Cooperative Services, Inc. (CSI) was one of the earliest users of the Section 202 program and continues to this day to build and manage senior housing cooperatives in urban areas across the country. CSI started operations with the development of the Wyandotte Co-op, just outside of Detroit, Michigan, using Section 202 funding. CSI now manages more than 6,200 units of senior housing in 45 locations in California, Maryland, Massachusetts, and Michigan.

Barriers to Development of Cooperative Housing with Section 202

While housing cooperatives are eligible projects under Section 202, very few housing cooperatives are developed with Section 202 funding. One reason developers of

[1] Cooperative Development Foundation, "Developing and Sustaining Rural Senior Housing Cooperatives," Research Report, U.S. Department of Agriculture, USDA RBS 99-12, 2001.
[2] Ibid.

senior housing cooperatives give for this is the overly burdensome and time-consuming application process for Section 202 funding. In addition to the difficulty of this process for any developer of senior housing, developers of cooperatives must explain the unique features of cooperative housing to program personnel unfamiliar with this structure. HUD should be mandated to provide training in cooperative housing to program staff and even set-aside a portion of Section 202 funding for cooperative housing projects.

While most development projects require the packaging of several different sources of financing, Section 202 is not flexible to combine with low-income housing tax credit financing, the most common source of financing for low-income housing development today. Fixing the problems with combining these two programs should help developers access the Section 202 program.

CSI has also reported that efficiency units are often left unoccupied because the cost to the resident (30% of income) is the same as that of a one-bedroom unit. Incentives should be given to seniors to take efficiency units to reduce expenses for developers and managers of Section 202 housing.

Thank you, again Mr. Chairman and members of this Committee for this opportunity to testify.

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