THE FUTURE OF HOUSING IN AMERICA: INCREASING PRIVATE SECTOR PARTICIPATION IN AFFORDABLE HOUSING

HEARING

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THE FUTURE OF HOUSING IN AMERICA: INCREASING PRIVATE SECTOR PARTICIPATION IN AFFORDABLE HOUSING

Thursday, April 16, 2015

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

The subcommittee met, pursuant to notice, at 9:19 a.m., in room 2175, Rayburn House Office Building, Hon. Blaine Luetkemeyer [chairman of the subcommittee] presiding.

Members present: Representatives Luetkemeyer, Garrett, Pearce, Stivers, Ross, Barr, Rothfus, Dold, Williams; Cleaver, Velazquez, Capuano, Clay, Green, Ellison, Beatty, and Kildee.

Ex officio present: Representatives Hensarling and Waters.

Chairman LUETKEMEYER. The Subcommittee on Housing and Insurance will come to order.

Today's hearing is entitled, "The Future of Housing in America: Increasing Private Sector Participation in Affordable Housing."

Before we begin, I would like to thank the witnesses for traveling to 2175 Rayburn for today's hearing. The audio-visual system in the Financial Services Committee's main hearing room is being replaced and the room is being updated to meet the requirements of the Americans with Disabilities Act, so I want to thank you all for your patience as we beg and borrow hearing room space for the next several months. I stopped by there this morning and they are making progress, but around here progress is at a snail's pace.

So with that, I recognize myself for 3 minutes for an opening statement.

I want to start today by looking at some facts. Since Fiscal Year 2002 the Federal Government has thrown more than $550 billion at HUD. There are roughly 122,000 families on Section 8 wait lists in New York City alone.

In late February, St. Louis County, Missouri, opened its wait list for the first time since 2010. When the City of St. Louis opened its wait list in 2007, the housing authority got more than 27,000 applicants in 1 week.

Countless other cities across the Nation find themselves in more dire situations, where proverbial wait lists for wait lists run years long. Given this, it may be surprising that the Department of Housing and Urban Development's Section 8 budget increased by

71 percent between Fiscal Years 2002 and 2013, yet I have heard no one indicate that more of the need is being met.

These aren't signs of successful programs; they are signs that reform is desperately needed, that a status quo isn't good enough. The reality is that the funding situation isn't going to get better, and despite even the best of attempts, simply asking for more Federal dollars isn't going to work.

We need to look at innovative ways to do more with less, including increased private sector participation in public and affordable housing. And while private capital may not work in every instance, it is essential that we examine the track record of demonstration projects like Moving to Work, and the Rental Demonstration Assistance Program, and public-private partnerships so we can serve more people in need with the limited resources at our disposal.

In today's hearing we will hear from witnesses who have first-hand experience in forging partnerships that benefit communities in need. These are some of the many people and organizations striving to make a difference. We need to provide them with greater flexibility to meet the growing demand they face.

My sincere hope is that members of this committee can work for positive results in public and affordable housing.

And that we can work together to discuss reasonable reforms to HUD. The Department will turn 50 this year, and I think it is fair to say that it has at least a mixed record with few, if any, metrics to measure success. Despite trillions of dollars in funding and countless programs, too many Americans remain in need of housing assistance.

This is an issue of great importance and one on which I hope we can work with members of this committee in the coming months.

I want to thank our witnesses for appearing today. We look forward to your testimony.

With that, I yield 5 minutes to the ranking member of the subcommittee, Mr. Cleaver. And for those of you who are not aware, there was a wonderful article in today's Roll Call about the temperament and attitude and the work ethic of Mr. Cleaver, which is excellent, and I commend him for his being acknowledged in such a way.

Mr. Cleaver?

Mr. CLEAVER. Thank you, Mr. Chairman. I may not take the entire 5 minutes.

I, too, would like to thank those of you who come here to give of your time and talent to help this committee as it struggles with issues that are extremely important to the people in this country.

This hearing will cover a crucially important topic: the need for safe and affordable housing for our country's most vulnerable populations. This is especially topical given the shift in the housing market away from homeownership towards reliance on the rental market, following years of economic decline. As we are all aware, low-income Americans rely rather heavily on the rental market, a market that is currently falling short of affordable units.

We, the elected leaders of the United States Congress, of the most powerful nation on this planet, have a duty to take care of our most vulnerable. This is not about the makers versus the takers. This is about reforming and investing in our social programs, expanding access to affordable housing, and ensuring our most vulnerable, especially our children, do not go to sleep at night in an unsafe and unsanitary environment. There are poor children in urban, suburban, and rural areas that I represent, and I will never turn my back on any of them.

It would be impossible to discuss the topic of affordable housing without highlighting the integral role played by the Federal Government. There are a number of Federal housing programs that work to invest and produce affordable housing units by leveraging private dollars.

Although I don't have enough time to go into detail on the programs, many of which I have actually orchestrated in Kansas City during my 8 years as mayor, I do think I would list a few. First, the HOME Investment Partnerships Program—Washington gives an acronym to everything, so the HOME Program—is a block grant program used by States and local governments to create affordable housing.

And since 1992, over 1 million units of housing have been produced with HOME funds. This figure includes nearly 485,000 homes for new homebuyers, more than 225,000 owner-occupied homes, and approximately 450,000 rental housing apartments.

According to HUD, one dollar of HOME funding leverages an additional $4.17 in non-HOME funding.

Second, I have not been shy in my support of the National Housing Trust Fund, created in 2008 with the passage of the Housing and Economic Development Recovery Act. This program is a block grant that prioritizes housing for extremely low-income families, and I applaud Director Watts' decision to make this fund available.

I yield back the balance of my time.

Chairman LUETKEMEYER. I thank the gentleman.

With that, let me introduce the panel today: Ms. Adrianne Todman, executive director, District of Columbia Housing Authority; Mr. Brad Fennell, senior vice president, WC Smith; Mr. James Evans, director, Quadel Consulting; and Ms. Sheila Crowley, president and chief executive officer, National Low Income Housing Coalition.

Each of you will be recognized for 5 minutes to give your oral testimony.

Just a quick primer on the lights in front of you: the green light means go; the yellow light means you have 1 minute left, so start thinking about wrapping up or seeing how you can curtail things because we want to try and stay within the 5 minutes; and when the red light goes on, I have a gavel.

I know that our committee members are normally used to having a clock on our own seats, so we are going to have to be watching those lights, as well, to watch for whenever we have our questions that we have, sort of wrapping up our own questions.

So with that, Ms. Todman, you are recognized for 5 minutes.

STATEMENT OF ADRIANNE TODMAN, EXECUTIVE DIRECTOR, DISTRICT OF COLUMBIA HOUSING AUTHORITY

Ms. TODMAN. Good morning, Chairman Luetkemeyer, Ranking Member Cleaver, and members of the Housing and Insurance Subcommittee. I am Adrianne Todman, executive director of the D.C.

Housing Authority (DCHA), and I am pleased to be here today to provide information and insight on affordable housing innovation undertaken here in D.C.

My expertise in this area builds on 25 years of experience at both the Federal and local levels of government. I began my professional career here in this building as a legislative assistant and, after 4 years, moved over to a public policy position at HUD, where I had the great privilege of working to help shape the HOPE VI program during its early years, and working and learning from some of the country's greatest minds on community development.

I now have the responsibility of implementing many of the programs and rules I worked on at the Federal level. And in doing so, I can recognize that the best of intentions are too often unnecessarily bogged down by burdensome processes, limiting our ability to shape programs with locally-driven solutions. DCHA is very fortunate to be a Moving to Work agency, which allows us to effectively shape our response to local issues.

Our housing authority cannot fulfill its mission alone. Our success requires the support of this Congress, HUD, our local leadership, our clients, and the private sector. Without our private sector partners, we would be unable to achieve our core mission.

My housing authority houses more than 50,000 low-income families here in the Nation's capital. Twenty thousand of those families live in public housing, and the remainder will use a voucher in the rental market system.

For those families who live in the private rental units, we rely on our local landlords to provide affordable housing, and we work with over 3,000 landlords at this point. Additionally, DCHA works very closely with many private and nonprofit developers to create affordable units for low-income families in the private development projects. Through project-based partnerships, we have created almost 2,000 units throughout the district and in neighborhoods that now are less affordable to moderate-income families.

Our traditional public housing developments represent the backbone of affordable housing here in D.C. We have 8,300 units of public housing for low- and moderate-income households. This housing stock is a precious resource both locally and nationally.

While my colleagues across the country would love to receive 100 percent of the funding level that is promised to us, we know that we cannot wait for the priorities of our funders to change. This is why we must explore private-driven solutions to preserve these units.

Today, in addition to the Choice program, the successor program to HOPE VI, HUD has created a new tool, the Rental Assistance Program. I support this program and fully intend to use it.

At DCHA we have analyzed our need and we have determined that DCHA will need more than $1 billion in additional funding to bring our entire stock up to a 20-year viability. We work aggressively on our redevelopment and modernization pipeline, but with a process that is very sensitive to our resident concerns.

Our work has been vital to economic development, but, very importantly, the preservation of low-income affordable units from neighborhoods like Capitol Hill to Columbia Heights. Over the years, we have done this work always with a sensitivity to the families impacted. We have a robust process prior to redevelopment, and we also protect our deals to protect the public asset into the future.

Finally, our work with the private and nonprofit sectors includes our work to help families achieve their full potential and improve their economic situation. As a Moving to Work agency, we are able to use those funds to actually provide services to our residents and to be able to provide grants to private sector partners to achieve their service goals.

I would like to conclude with some recommendations on ways that my colleagues and I can receive help.

First, the approval process: The existing mixed finance approval process at HUD is very complex and lengthy. It typically takes several months to get approvals. We need to work with HUD and develop a more streamlined process.

Our repositioning: Over the past couple of years, the approval process for a demo-dispo has become ever more curious. Though the statute states that HUD shall approve a demo-dispo application if the PHA certifies to certain items, right now HUD is requiring far more justification rules that we have to follow.

Underutilized tools: Both the Section 30 and the Capital Fund Financing Program are tools that housing authorities are not using to their full capacity, given a number of different issues. One with Section 30 is that it has not been fully implemented by HUD. And with the Capital Fund Financing Program, it only works if our capital fund is more fully funded.

But most importantly, we need to be able to find local solutions to local problems. DCHA is very fortunate to be a Moving to Work agency, and this has provided us the ability to shape our programs to respond to local needs, and we encourage that flexibility for other agencies across the country.

That concludes my testimony. It is clear to me, given my experience, that the appropriate level of public investment, a business environment that welcomes private sector involvement, and the ability to apply local solutions to local problems, housing authorities will be able to maximize our ability to preserve and create low-income housing throughout the country.

Thank you for inviting me to testify today.

[The prepared statement of Ms. Todman can be found on page 66 of the appendix.]

Chairman LUETKEMEYER. Thank you, Ms. Todman.

Mr. Fennell, you have 5 minutes.

STATEMENT OF BRAD FENNELL, SENIOR VICE PRESIDENT, WC SMITH

Mr. FENNELL. Good morning. My name is Brad Fennell, and I am the senior vice president at WC Smith. I am here this morning to share the successes and challenges that we faced while developing Sheridan Station, a transit-oriented, mixed-income development one block from the Anacostia Metro in Washington, D.C.

WC Smith in 2007 partnered on this project with the D.C. Housing Authority. Due to its overall size and complexity, the development was financed and constructed in three phases, with the last of the units delivering this summer.

There is extreme demand for high-quality, well-managed affordable housing. The results we have seen at Sheridan demonstrate the severe shortage of affordable housing options. For context, when we delivered phase one we had over 1,700 names registered, enabling us to pre-lease units as we completed construction.

But Sheridan Station is not just an affordable development. It is also an environmentally friendly project.

It was the first multifamily building in D.C. to be awarded LEED platinum for its superior energy performance. The building features a solar array that produces 60 percent of the building's common area electricity, as well as a rain garden, energy-star appliances, and underground rainwater cisterns that collect storm water runoff.

While Sheridan Station replaces affordable housing, it is not recreating the dilapidated housing of the past. It is set apart by high-quality finishes, community amenities, and resident support.

More significantly, the combination of rental and homeownership units contains a true mix of incomes, and also attracts a diversity of residents. Incomes at Sheridan run from as low as $5,000 a year to $230,000 a year.

When complete, Sheridan Station will provide a total of 327 housing units. The rental units utilize private equity derived from the Housing Tax Credit fund, where incomes are capped at 60 percent. But 110 of the rental units in this project are further subsidized with Section 8 annual contribution contracts, providing housing for the neediest in our City.

The $20 million in HOPE VI funds has been key to the success of this project. The funding allowed the development to move forward while filling a gap in financing.

While the Federal subsidy was a driving factor, it is important to point out that the development team leveraged $5.65 in other private and local sources for every dollar of Federal spending. Also, the money was structured as a loan, so the Federal subsidy is repaid at a very low interest rate.

By leveraging private investment, the Housing Tax Credit was critical to providing affordable homes to many more families than the HOPE VI funds could have provided on its own. The affordable apartments that it financed complemented the deeply targeted HUD-funded apartments and the market-rate homes to make Sheridan Station a truly mixed-income community.

As the success at Sheridan Station shows, the private sector is equipped to provide affordable housing, and our region and many other areas in the country are in critical need of additional units. Continued public investment, whether it is more ACC, more project-based vouchers, more capital funds, or more HOPE VI-like programs, will help fill the gap between the market-rate costs and subsidized rent and will encourage developers like us to create more housing.

Developing affordable housing is not without challenges, and increased funding is the single biggest impediment. But there are other areas that would enhance the private sector involvement.

One is relaxing the 60 percent income limit imposed by the housing credit unit. A better approach would be to allow a blend of incomes with a cap of 80 percent AMI as long as the building average is below 60 percent.

The floating tax credit rate is another challenge. This rate is published monthly by the IRS and it helps to determine the amount of cash equity a project sees from an investor. This rate has been near historic lows, starving new projects of equity.

The project equity amount is often not known until the month of closing, which makes it difficult. A way to solve this problem would be to set aside a constant rate of 4 percent and 9 percent, rather than to have them float monthly.

The development community is wary of uncertain delays, both of which add significantly to the cost of a project, so streamlining the public agency award and approval process is a must.

An additional limiting factor is the scarcity of the housing credit resources. Many developments each year cannot get credits they need. Making more credits available would produce more units like we have at Sheridan Station.

Another challenge is that the Section 8 ACC rent subsidy from HUD doesn't take the apartment size into account. The current monthly subsidy is a flat $425 for a studio or a three-bedroom.

The subsidy limit creates disincentives to build larger units. At Sheridan Station the two-bedroom units currently rent for $1,295, so the subsidy covers less than half the cost of the rent.

Lastly, a portion of this project was covered by the Federal Davis-Bacon wage scale and classified as commercial heavy highway, despite being entirely residential midrise. This added a 5 percent premium, equaling $1 million in construction costs.

Affordable residential projects with wood frame construction should be classified as residential under the Davis-Bacon wage scale act. This will stretch the overall effectiveness of any public subsidy.

Members of Congress, staff, and others here today, thank you for this opportunity to testify at this hearing. We at WC Smith are very proud of our accomplishments at Sheridan Station and hope that we have been able to share some helpful information today.

Thank you.

[The prepared statement of Mr. Fennell can be found on page 57 of the appendix.]

Chairman LUETKEMEYER. Thank you, Mr. Fennell.

Mr. Evans, you have 5 minutes.

STATEMENT OF JAMES M. EVANS, DIRECTOR, QUADEL CONSULTING

Mr. EVANS. Chairman Luetkemeyer, Ranking Member Cleaver, and subcommittee members, thank you for the opportunity to testify on the very important topic of increasing private sector participation in affordable housing.

My name is Jim Evans, and for the past 23 years I have worked in the field of affordable housing. And for the past 11 years I have worked for Quadel Consulting. Formed in 1978, Quadel provides consulting, training, and direct management of affordable housing programs.

My testimony is based upon my experiences and focuses on the national need for more affordable housing production and preservation, as well as strategies to increase private sector participation. To assure private sector participation, the national housing policy must be consistent and adequately funded. Any changes to the national policy should be based on private market principles that are designed to foster cost-effectiveness and innovation.

For many years, the Housing Choice Voucher Program has accounted for the largest part of the HUD budget. Unfortunately, funding and program requirements have not kept pace with the market. To continue serving low-income families on the program within the resources available, housing agencies have been forced to take actions that have caused some private sector players to discontinue participation in the program or decide not to accept an otherwise qualified tenant with a housing choice voucher.

Another challenge is the inconsistency between program requirements. For example, the statutory maximum term of a project-based voucher contract is 15 years. However, an FHA-insured loan requires that units remain affordable during the term of that loan, which could be as long as 40 years.

The inability to easily layer affordable housing finance programs with subsidy programs discourages private investment. To fix this problem, it is recommended that there be flexibility to allow the term of the subsidy contract to be the same as that of the loan program.

One tool that is being used to identify affordable housing innovation is the Moving to Work demonstration, or MTW. Since its authorization in 1996, participating agencies have found new, better, and more cost-effective ways to deliver assisted housing services. In fact, many of the MTW innovations have become national policy.

It is also important to note that despite criticism to the contrary, MTW both protects and benefits residents as it helps housing authorities make programmatic investments where they are most needed.

To build on the demonstration's success, it is recommended that MTW either be expanded or more of the innovations be built into the current programs. As well, it is important to find more ways to promote fair housing and maximize the value of the Section 8 subsidy by providing agencies the flexibility they need to expand access to private sector housing opportunities in their communities that are within the reach of voucher holders.

Next, I would like to acknowledge the importance of the Low Income Housing Tax Credit program. Tax credits have been the workhorse of affordable housing development and preservation since the 1980s.

Congress can strengthen and enhance the contributions of the private sector by continuing to support and expand the use of housing credits for affordable housing development and preservation.

The Rental Assistance Demonstration, or RAD, is HUD's program to introduce private investment into public housing and has experienced some early successes. One current challenge to the RAD program is access to 9 percent tax credits. Some of the public housing portfolio is in desperate need of investment, and 9 percent credits are the only financing tool that will make a RAD conversion viable.

To attract private investment and reposition the projects with the greatest need of investment, it is recommended that a special allocation of 9 percent credits, separate from the regular allocations, be created to specifically address the conversion of public housing units.

And while RAD is an important tool for preserving public housing, it may not be the best option for all agencies. The current formula for managing public housing assets is broken. The combination of tenant rent and an underfunded operating subsidy and capital fund program cannot meet the operational needs of an aging public housing inventory.

PHAs are authorized to mortgage their public housing and real estate to secure private sector financing through Section 30. While this flexibility has not been used often, it is gaining in popularity and it opens new avenues for private investment while at the same time making sure to protect the rights of tenants.

To assure more use of this option, the approval process should be simplified. As well, the lessons learned from MTW should be used to authorize PHAs to combine Federal funds to preserve existing housing.

Another important part of the national affordable housing strategy includes the Section 8 project-based assistance portfolio. Since the early 1990s, Congress authorized the use of private sector model to manage and oversee the administration of the program. Because these units are owned by the private sector and there is debt on all or most of these properties, it is essential that Congress ensure an adequate and uninterrupted process for payments.

My testimony can be summarized into three overarching themes. First, the role of the private sector is essential to preserve affordable housing. Second, the government must offer adequately funded programs to encourage private sector participation and innovation. And third, our efforts must respect the rights and benefits of program residents and participants.

For more than 37 years Quadel Consulting has been proud to work in the field of affordable housing. We look forward to working with your committee on legislative initiatives designed to enhance the availability and preservation of affordable housing.

Thank you, Mr. Chairman, and subcommittee members.

[The prepared statement of Mr. Evans can be found on page 51 of the appendix.]

Chairman LUETKEMEYER. Thank you, Mr. Evans.

Ms. Crowley, you are now recognized for 5 minutes.

STATEMENT OF SHEILA CROWLEY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL LOW INCOME HOUSING COALITION

Ms. CROWLEY. Thank you, Chairman Luetkemeyer and Ranking Member Cleaver. Thank you very much for the opportunity to testify today.

I am Sheila Crowley, the president and CEO of the National Low Income Housing Coalition.

First, I would like to bring greetings from Empower Missouri, formerly the Missouri Association for Social Welfare. They are our State coalition partner in Missouri.

I am going to emphasize three points in my oral testimony. First, we have a severe shortage of rental housing that extremely low-income households can afford. Affordability means paying no more than 30 percent of your income for your housing.

And in housing policy, low income is defined as income between 50 and 80 percent of the area median income; very low income is between 31 and 50 percent; and extremely low income is income at 30 percent of the area median income or less.

Table one compares 30 percent of national median family income to the Federal poverty level for a family of four. And what you can see is that the 30 percent AMI is now below the poverty level substantially for a family of four, and it is getting worse as time goes on. This shows you how poor extremely low-income families are.

Figure one is a graph that compares the number of renter households in these income groups to the number of housing units renting at prices they can afford. So the column on the left are units; the column on the right are households.

And you will see that there is a surplus of housing affordable to the very low-income and low-income households, and there is a shortage of housing that is affordable to extremely low-income households.

We have also added another category at the very bottom that we call deeply low-income. These are households with incomes at or below 15 percent of the area median income. And for a one-person household, 15 percent of the median family income is $6,909 a year. This is even less than the Federal supplemental security income payment for one person in 2015, which is $8,796.

The shortage for extremely low-income households is even worse because many of the units affordable for lower-income groups are occupied by higher-income households. Nationally, there are 10.3 million extremely low-income renter households and 3.2 million homes that are available and affordable to them, so the real shortage is 7.1 million units.

The first consequence, of course, is that poor people spend much more than they can afford for their housing. Seventy-five percent of extremely low-income households spend more than half of their income for their housing and are at high risk of not being able to pay the rent and eventually becoming homeless.

Despite gains in recent years in addressing homelessness, the number of homeless people remains alarmingly high, especially among families with children. In New York City alone, there are 25,000 homeless children today.

To solve this problem, we have to invest in more housing that is affordable to people at the lower end. That will create the ability for people to afford housing at that end and free up housing at the higher end.

There are numerous opportunities for the private for-profit sector to be involved, but only in the context of public-private partnerships. Without a public commitment, there is no motivation for private investment.

The data on the housing shortage and the years-long waiting list for Federal housing assistance are evidence that there is a market for rental housing that extremely low-income families can afford. If there were a profit to be made creating and operating this housing, somebody would have done so by now. There is a mismatch in what it costs to build and operate rental housing that these families can afford and what it is that they can pay.

It is possible to end homelessness and the shortage of affordable rental housing in America without costing the Federal Government one additional dollar. We simply need to use our existing Federal housing subsidies more efficiently and effectively.

Representative Ellison's Common Sense Housing Investment Act would make modest changes to the mortgage interest deductions to give tax breaks to moderate and low-income homeowners and generate billions of dollars of new revenue for affordable rental housing for extremely low-income households.

One of the programs that he would fund is the National Housing Trust Fund. As the committee knows, the trust fund received its first funds in 2016 through the GSEs. It will serve as an incentive to bring other resources to the development of rental housing for extremely low-income people for at least two reasons.

First, its deep income targeting. There is no other Federal program that provides new money to support rental development targeted to extremely low-income households.

Second, the National Housing Trust Fund's flexibility. It provides capital grants or loans that can be coupled with other sources of funding and used for a range of costs associated with construction of multifamily properties. Projects will be designed based on local market conditions, local priorities, and local resources.

Thank you very much, and I look forward to your questions.

[The prepared statement of Dr. Crowley can be found on page 42 of the appendix.]

Chairman LUETKEMEYER. Thank you, Ms. Crowley.

With that, we will begin our questions. I am going to defer my questions to the very end.

And to that end, we will begin with Mr. Rothfus from Pennsylvania. He is recognized for 5 minutes.

Mr. ROTHFUS. Thank you, Mr. Chairman.

Mr. Evans and Ms. Todman, you both mentioned expanding the Moving to Work program in your testimony, and I am interested in exploring this program a little bit further.

In Pennsylvania the housing authorities participating in the demonstration are the City of Pittsburgh Housing Authority and the Philadelphia Housing Authority, two of the big cities in our State. In your experience, do smaller housing authorities in the suburbs or rural areas elsewhere across the country participate in the program with success?

Ms. Todman?

Ms. TODMAN. Is the question whether or not there are smaller—

Mr. ROTHFUS. Yes. Are those in the suburbs or the rural areas, the smaller ones, participating in the program with some success?

Ms. TODMAN. No, there certainly are. There are 39 housing authorities that represent almost every size of agency within the full housing authority industry. And the concept of Moving to Work isn't unique to things that urban area housing authorities need.

And there are two basic concepts. One is the ability to receive our funds from HUD and to be able to use those funds in a way that best addresses things that are happening on the ground. Here in D.C., we do use some of our funds on the Housing Assistance Program (HAP) program to help support our public housing program because it is underfunded.

The second piece that I think is also equally needed for a smaller housing authority is the ability to re-regulate when necessary when you look at HUD rules. As somebody who used to work at HUD, I know that there are many regulations that sometimes get in the way of progress, and so we are able to look at those rules and re-regulate them in a way that it is a better construct on the ground.

So I think that it is a program that is equally valuable to larger and smaller housing authorities.

Mr. ROTHFUS. Mr. Evans?

Mr. EVANS. I agree with Ms. Todman. And going back to the original question, whether the MTW program should be expanded, it should either be expanded or the innovations that have been learned from MTW should be applied more broadly to the existing programs.

Mr. ROTHFUS. Are there components or aspects of the program that make it more attractive to a larger housing authority versus a small housing authority—either of you?

Ms. TODMAN. When I speak to my colleagues who represent smaller housing authorities, there is a sense that perhaps as a smaller housing authority they don't need it as much. But I think that after we have sat down and explained to them the merits of it and the capacity to really, truly be able to exercise some more control over their funding buckets, there is a little bit more awareness about the effect upside.

So we have fewer smaller housing authorities, but I don't think that is because it is less of a tool in rural and—

Mr. ROTHFUS. But given that education effort for the smaller housing authorities, do you think they would be more eager—

Ms. TODMAN. Yes.

Mr. ROTHFUS. —to participate?

Ms. TODMAN. Yes I do.

Mr. ROTHFUS. Could either of you—Mr. Evans or Ms. Todman—give me some examples of the successful, innovative ideas that Moving to Work housing authorities have implemented to best serve the local population's needs? And could a non-Moving to Work authority do those kinds of things?

Ms. TODMAN. Do you want me to go first? Okay.

Some of the ways we have used our flexibility here in D.C. have been directly to help our clients find affordable housing. One very basic thing is, for many of you who live in the District of Columbia, it is not cheap. It is hard to find affordable units.

And so one of the things that we have done is we have increased our payment standard even above that of what HUD would allow, to 130 percent. And by doing so, we have been able to move our clients into additional areas of D.C. that even 6 or 7 years ago were inaccessible. So that is one way.

Another is that we have been able to, as I mentioned, which is huge for us—we have 8,000 public housing units and with the funding the way it is, I have an option of either moving some funds into my public housing program or shutting down the units. And so we have opted to move funding into our public housing program.

Mr. ROTHFUS. Mr. Evans, I noticed your background and the service you have given to the country. Thank you for that.

Are any of your clients you work with doing innovative work with the veterans population that you could speak to?

Mr. EVANS. Yes. A number of our clients are working either through the VASH program, the Veterans Affordable Supportive Housing program, or also creating—just in creating affordable housing, and they have local preferences that are targeted to veterans and returning warriors.

Mr. ROTHFUS. Great. Thank you.

Ms. Todman, I want to talk a little bit—although I think I am going to be running out of time shortly. You mentioned a discussion of some of the assisted living space work that you are doing. Could you talk more about that project and what other housing authorities across the country may have had success with when serving the needs of seniors and disabled individuals who may not necessarily be taking part in a job-creating program and other activities designed to help able-bodied folks achieve economic independence?

Ms. TODMAN. Sure. There are a few of us who have done this because apparently it is really hard, which is what we discovered trying to blend the assisted living rules with the rules of public housing. So we are the only ones here in this region who have a truly low-income assisted living site, and we were able to do it with some components of Moving to Work.

It is only 14 beds. We are using it as a model to learn how to do this to scale. But our seniors and the persons who live there love it.

Mr. ROTHFUS. Thank you, Mr. Chairman.

Chairman LUETKEMEYER. Thank you.

With that, we will go to the distinguished ranking member from Missouri, Mr. Cleaver.

Mr. CLEAVER. Thank you, Mr. Chairman.

First of all, Ms. Crowley, thank you so much. I have been on this committee for 10 years, and as soon as you got out of college it was probably my first year on the committee. You have been coming before this committee for those 10 years. I think you were probably 18 at the time when you first showed up.

But thank you for all of your commitment of your knowledge to us.

Ms. CROWLEY. Thank you, sir.

As a former mayor, I know—and every mayor in the country knows—there is hardly any partisanship in municipal governments. Nobody has a Republican pothole and a Democratic way of fixing that pothole. Everybody just works together.

So we wanted and still want—any city you go to, no matter who the mayor is, they want public-private partnership. That is the goal. Every day you wake up you want that kind of partnership because you want to use the expertise of the private sector, which they have, and efficiencies.

It helps all of the taxpayers because if we get public-private partnership we don't have to go out and issue bonds or otherwise go into municipal debt. So everybody wants it.

I guess my question to you is, my experience has been that the public sector has been less than enthusiastic about becoming involved in affordable housing, which I understand. They are in business. They are trying to make a profit.

So do you think that we could have a private market exclusive of Federal involvement—financial involvement?

Ms. CROWLEY. For rental housing for low-income people?

Mr. CLEAVER. Yes, for—

Ms. CROWLEY. No.

Mr. CLEAVER. Yes, for affordable housing.

Ms. CROWLEY. No. There is just no evidence that there is a willingness to do that, nor why would there be? If you are in business to turn a profit—even a modest profit—your customers have to be able to afford your product, and if what it costs you to build and produce and deliver your product is more than your customers can afford, then you are not going to do that.

And so there are several things we could do. One is if people made more money there would be a greater market, and it certainly would be better if low-income people were able to improve their incomes. It is really alarming how much the income has stagnated when you look at the comparison between the poverty level and the ELI level over the last 15 years.

Obviously, if people had more money they could do that, so there are plenty of things that the Congress could do to address that.

But in the immediate, very near future, we have kids who are sleeping in shelters and in cars and in places where children should not be sleeping, and they can't wait for us to fix that. They need for us to put money into housing now and get them into safe, decent, and affordable homes.

And that is a public responsibility. The private sector can't do that without a public investment.

Mr. CLEAVER. Thank you. That is my experience.

Let me ask Ms. Todman, being here in Washington, D.C., you are closer to this than probably any other director of a PHA or Federal housing program. Are there impediments to public-private partnership—PPPs, or P to the third power—here in Washington? I am wondering, is there something that the Federal Government can do that would encourage greater private participation?

Ms. TODMAN. Thank you for that question. In D.C., we are often challenged by very high rents. And back to the point you made earlier, usually—other than Brad—other folks in the private sector are really in this game so that they can have something at the end of the day.

And if the pockets of money that housing authorities have to do public-private partnerships isn't enough to hit those rents because, to Ms. Crowley's point, it is the public sector funds that actually allow our clients—our low-income clients to live in parts of town that have been changing over the past couple of years. But if we are not able to get to that rent level then it means that unit can't be supported and operated to service debt coverage.

So one of the things that we have done to be able to hit those rent levels is using our Moving to Work flexibility to be able to subsidize what HUD would already suggest is our rent level. And by doing so, we are able to put affordable housing in parts of D.C. that would otherwise not be available.

Mr. CLEAVER. Thank you.

Chairman LUETKEMEYER. Thank you. The gentleman's time has expired.

We will go to the gentleman from Illinois, Mr. Dold, for 5 minutes.

Mr. DOLD. Thank you, Mr. Chairman.

And I certainly want to thank you all for taking your time to be here today.

Ms. Todman, I wanted to kind of build off what you had mentioned in your testimony: local solutions to local problems. I have to tell you that in—it goes well beyond housing when we look—and I am talking to people back in the district, they just think the government doesn't get it.

They are looking for a little bit more local control. They want to be able to have the flexibility to solve problems because a one-size-fits-all mentality oftentimes doesn't work.

So I was hoping you might be able to shed a little bit more light on local solutions to local problems. I can tell you that in the 112th Congress this subcommittee actually held a hearing on Moving to Work, where one witness from the Chicago Housing Authority, I would say more my hometown type area, said that the landscape of Chicago and the life trajectory of thousands of low-income families would not be the same without the local flexibility the Moving to Work program provides.

Are there other initiatives or programs besides the Moving to Work program that you see could provide more local flexibility to change the lives of the families that you serve?

Ms. TODMAN. Sure. Again, we have used our Moving to Work flexibility, and I think all my colleagues have, in three very important ways to help our clients.

The first is, I spoke earlier about the ability to help one program feed the other, and here in D.C., many of you would be driving around more boarded-up public housing units but for Moving to Work and being able to use those funds more fungibly.

The second is that our voucher program is extraordinarily complicated, and so we have been able to work with our landlords and our voucher participants to streamline some of the regulations that other non-Moving to Work agencies cannot. And so we have been able to get families, including veterans, housed more quickly, and been able to have families live in more higher-rent areas than just certain parts of the City.

And then third, HUD does not fund us to do any type of social service work. And the average income of my clients is about $12,000. If we are ever going to be able to help those families achieve their potential, we need to invest in them. And we have been able to use our Moving to Work funds, and my colleagues as well, to make those investments in our youth and our work—our families who can work so that they can actually have some services.

Mr. DOLD. Let's build on that just for a second, because I think we all can share the goal that we want to make sure that folks who are in public housing are able to become self-sufficient and move on. And I can tell you, in talking to our housing authorities, the wait list is a long wait list—in fact, it has been closed for several years, meaning that people who needed it or wanted it couldn't get on. So obviously there is a need to kind of think differently about how do we open it up and expand it.

But on the idea of better linking the housing services with education, job training, and encouraging low-income individuals to become more independent, how do we get them—or what are the successes that we can point to to get them out of public housing and more self-sufficient?

Ms. TODMAN. We have a very robust homeownership program where we have been able to partner with local banks and local public agencies to actually work with some of our low- and moderate-income clients. Just last month I had three of our public housing residents actually close on their homeownership units, which was very exciting for everybody involved.

And so that is how we—it is very incremental. It is family by family. It moves slowly, but it happens.

To your point about the waiting list, we have about 41,000 people on our waiting list here in D.C., so the more we are able to help families who have achieved something other than public housing, the more we can help the families on that list—but without penalizing families who are not able to move out of public housing, because I have found that there is no rental market that they can afford but for the units that we have.

Mr. DOLD. I wanted to see if I could shift gears a little bit and talk about social impact bonds. Obviously, there is a need. We have a number of folks on a waiting list trying to attract private sector investment.

Ms. Crowley, do you think that we might be able to use something like a social impact bond in public housing to attract private sector investment?

Ms. CROWLEY. I think social impact bonds are a very interesting concept. They are very new in the field, and so we have a lot to learn about that.

My understanding of them is that the private sector puts up money to deliver a particular kind of service, usually around outcome-based things like recidivism. And then if the service delivery is successful, the government pays for it, and then the service provider can pay back the private company.

It seems a little complicated to do that. They are known as these pay-for-success kinds of ideas.

I think we should be trying as many different things as we can, but I don't see that going to scale in a way that is going to address a problem of the magnitude that I have outlined here.

Mr. DOLD. Thank you.

My time has expired, Mr. Chairman.

Chairman LUETKEMEYER. The gentleman's time has expired.

With that, we will go to the gentlelady from New York, Ms. Velazquez—

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Chairman LUETKEMEYER. —for 5 minutes.

Ms. VELAZQUEZ. Ms. Crowley, do you have any opinion as to the risks that Moving to Work poses for public housing residents?

Ms. CROWLEY. Moving to Work has a lot of risk for public housing residents because under the flexibility that Moving to Work provides housing authorities, many of the protections that tenants have, the things that make public housing a good option for many people, are possibly gone. And that includes the provisions that make the rents affordable.

Rents can go up. Housing authorities would no longer have to serve extremely low-income households. They will, but they are not required to do that. There are all sorts of things that housing authorities can do or not do that may have a negative impact on tenants.

I am not saying that there is any malevolence, but I do think that in the name of experimentation, we haven't really figured out how to determine whether a given action by a housing authority is helpful or harmful.

Our major criticism of Moving to Work, besides the fundamental protections that are lost, is that we don't know what works. We haven't done any serious evaluation of it.

I have read all the studies. They are descriptive. They say, "This is what this housing authority did, this is what that housing authority did."

Some of those things sound good; some of those things sound scary. But in the absence of serious empirical evidence, I think we should proceed with caution.

Ms. VELAZQUEZ. And in your opinion, what are better ways to address public housing capital needs?

Ms. CROWLEY. I do think that there are some things about Moving to Work that should be looked at. The ability to merge the funds is something that we support under the stakeholder agreement, which is an agreement between HUD and the advocates and housing authorities.

And that was something that Ms. Waters proposed a couple of years ago, to be able to merge the funds to give housing authorities more flexibility in how they use their funds. So that is certainly one option there.

Ms. VELAZQUEZ. We hear that the housing authority in Chicago, as a result of implementation of Moving to Work, is serving a thousand less families through the Section 8 voucher program.

Ms. CROWLEY. Chicago is the housing advocate's scariest nightmare about Moving to Work. They have a huge waiting list and they are sitting on millions and millions of dollars of reserves without providing assistance to people who need it. And it baffles me why HUD doesn't do something about that.

Ms. VELAZQUEZ. Ms. Todman, Section 3 ensures that public housing residents benefit from job opportunities created by HUD funding. We all know that it hasn't met the full potential of the program.

This obligation will be diminished as public housing units are converted under the Rental Assistance Demonstration (RAD). In your opinion, how can we preserve job opportunities for residents in RAD-converted properties absent full Section 3 requirements?

Ms. TODMAN. Thank you for that question. I am not clear that Section 3 would be diminished as properties move over to RAD, because the core of Section 3 is that when there is Federal funds that are being provided to a contractor or vendor, the Section 3 rules follow. And certainly if I am operating a site and I am awarded someone a contract, Section 3 would apply.

We have a very robust Section 3 program—

Ms. VELAZQUEZ. Isn't it true that Section 3 will no longer apply to non-construction jobs at those projects?

Ms. TODMAN. I have not heard that is the case, Congresswoman. Section 3 is not applicable just to public housing work. It is applicable to when a contract has been let, and that contract could be let in any housing forum. But I am—

Ms. VELAZQUEZ. But we do know that we are having problems in getting public housing development which is getting Federal funds to get those contractors to hire residents from within public housing developments. So you can imagine the kind of oversight that you will have to have in place to make sure that this happens once those properties are converted into RAD.

Ms. TODMAN. I think that becomes a—how firm the housing authority is on these matters. We are very, very fierce with our contractors in terms of what we expect the hiring and training to be for every level of contract. Not every housing authority applies it that way.

Ms. VELAZQUEZ. And do you have a robust Section 3?

Ms. TODMAN. We do.

Chairman LUETKEMEYER. Thank you. The gentlelady's time has expired.

With that, we go to the gentleman from Texas, Mr. Williams, for 5 minutes.

Mr. WILLIAMS. Thank you, Mr. Chairman.

And I want to thank all the witnesses today for being here and for your testimony.

Federal funding for HUD and the Section 8 voucher program has continued to increase dramatically over the last decade. We are hearing that.

In fact, this year the President again requested an increase in funding for HUD to almost $50 billion, or 9 percent more than last year's enacted levels, as well as an increase in funding for Section 8 programs. As the voucher program continues to consume more and more of HUD's overall budget, Congress should take an active role in strengthening these programs and improve the taxpayers' investment.

Now, I think most of my colleagues here know that I totally—I am a private sector person. I still have jobs. I employ people. And I believe totally in the private sector, and I am a strong believer that the private sector can always do it better.

So the question of how we make these programs more efficient is fairly simple to me: Increase private sector participation in capital.

Let me direct my questions to you, Ms. Crowley. Several critics of today's public housing programs often suggest appropriating more money. Do you believe that the current existing Federal housing programs work really well?

Ms. CROWLEY. I think the Federal programs that we have provide essential housing services to very poor people, and in the absence of those programs there would be a great deal of suffering in this country. And so we have to take into consideration what it is that they do as we think about ways to improve them.

Can they be improved? Absolutely. Any program can be improved. And there are good ideas being generated all the time, and I think Congress should help incentivize that and motivate people to do that.

At the same time, the first principle has to be do no harm—make sure that the housing of people who rely on it now is not destabilized. Over time, we have lost a considerable amount of public and assisted housing under current rules, and we think that preserving it is of the utmost importance.

Let me just address the question about the increase in the size of the voucher program. That is not because we are putting new vouchers out there. It is because we have lost public and assisted housing units—hard units. The residents who were in those units have received vouchers in order to prevent them from being totally displaced. And so, you are just transferring the money from one fund to the other.

The other thing about the voucher program is that it is a market-based program. It is based on what rents are, and the rents go up every year. Because it is a public-private partnership, people use vouchers to rent housing in the private market, and the rents have to be based on what the market demands. And so even if you serve the same number of households, the cost will go up.

Mr. WILLIAMS. Thank you. And the next question would be, do you have confidence that HUD or other mechanisms can maximize taxpayers' investments in public housing?

Ms. CROWLEY. I have confidence that there is a great deal of wisdom at HUD and in housing authorities and in the private sector of people who know what they are doing and that, given the right motivations and the right tools, we can, in fact, do this well.

Mr. WILLIAMS. Fresh ideas from the government side?

Ms. CROWLEY. I'm sorry?

Mr. WILLIAMS. Fresh ideas from the government side?

Ms. CROWLEY. I think that we bring really good people to work at HUD, and we have people in this Administration who have good experience in the private sector.

Mr. WILLIAMS. My final question is, do you believe it is possible to establish new policies to promote public-private partnerships to house and provide services for vulnerable populations?

Ms. CROWLEY. To provide services within housing?

I think that we have a whole new frontier to discover around the intersection between housing and health care, and that as we have an aging population, the cost of providing care for people in nursing homes is going to be exorbitant and we are much better off if we bring health care to people in their homes and we figure out ways to pay for that through the health care system.

People are working hard now to come up with innovations as to how to do that, and these are partnerships between the public and the private sectors.

Mr. WILLIAMS. I appreciate your testimony.

I yield back.

Chairman LUETKEMEYER. The gentleman yields back.

Next, is the distinguished gentleman from Massachusetts, Mr. Capuano, for 5 minutes.

Mr. CAPUANO. Thank you for that distinguishment, Mr. Chairman.

Chairman LUETKEMEYER. I recognize talent.

Mr. CAPUANO. Mr. Fennell, if there were no government programs for affordable housing—no public housing, no tax credits, nothing, the government didn't do anything—would private money provide affordable housing for people?

Mr. FENNELL. I don't see how it could. Without a return on the investment, there would be no sense in making the investment.

Mr. CAPUANO. Mr. Evans, would you disagree with that? Or would you agree?

Mr. EVANS. I agree with Mr. Fennell.

Mr. CAPUANO. And I knew you would because I think everybody knows it, but I needed you to say it because if I say it it sounds like some left-wing conspiracy; if you say it, it is business saying it.

There is no such thing as privately-funded affordable housing, period. It is all government-funded, either directly through housing authorities, or indirectly through tax policies or whatever items in partnership with private companies. So the government has to be involved with affordable housing.

Therefore, the concept of private enterprise always doing everything better than government, in this instance, is an impossibility. I just wanted to start there.

Ms. Todman, I know you have only been at the housing authority for a while, but you have been doing this for a long time. Have you ever been involved with an expiring use?

Ms. TODMAN. Involved with what?

Mr. CAPUANO. An expiring use.

Ms. TODMAN. An expiring use? So are we—if we are talking opt-outs, yes, certainly the role that we play is when there is a—here in D.C., there are thousands of units that were privately-owned that opted out and HUD gave us the vouchers to provide to families.

Mr. CAPUANO. Have you saved all of the units that were expiring—saved them for affordability?

Ms. TODMAN. We saved the vouchers. The units themselves either flipped over into private rents or—

Mr. CAPUANO. The vouchers move on. The vouchers stay, but people get displaced, and they get displaced out of their neighborhood and out of their lives.

The reason I ask is because my fear is that depending on what we do with private-public partnership—and I saw that you have one program there that requires a 40-year agreement, another one to buy it back after 15 years, both decent programs. When expiring uses were first put together, no one ever thought that they would actually ever expire.

And 40 years from now, I am not sure, but I will take a wild guess: There probably will still be poor people in Washington and in the rest of America. And so therefore, I actually like the idea of public-private relationships, but I also am deeply fearful of something that says, "Let's do it today and not worry about tomorrow. Ninety-nine-year leases, let's buy it back 15 years from now."

Just in the last few years, has your agency seen the Federal assistance go down?

Ms. TODMAN. In the public housing program?

Mr. CAPUANO. In the public housing program for—because I remember we cut out all funding for police departments. Do you still have a police department in the housing authority?

Ms. TODMAN. We do. It is half funded by the City, and the rest of the funds come from our Moving to Work—

Mr. CAPUANO. You just shifted money from something else.

Ms. TODMAN. We shifted it around, that is—

Mr. CAPUANO. Everybody did. But you still have housing police, as we—as most agencies do.

So when we cut that money out, the money didn't go to capital, it came away from capital. And have we not reduced the capital funding for public housing?

Ms. TODMAN. The capital funding has gone down.

Mr. CAPUANO. That is my problem with all these things is that it sounds great today, but there will be a tomorrow and there probably will be poor people who need assistance, and I just—I am always concerned that somehow the lighting of the candles at the private alter doesn't take that into account.

Now, that doesn't mean the public doesn't have problems. Of course, we have problems. I am one of the chief critics of many things that HUD does.

But that is what we do is try to get them to do things right and get them to—[Phone rings.] oh, there we go. That is appropriate.

I guess the reason I ask is because I think this is an important hearing and I think this is an important subject, but I think it is a very delicate subject, as well, including with our private partners. Everybody understands private partners' need to make a profit. There is nothing wrong with that. It is American. It is a good thing to do.

But there is a tough thing to do when you balance a social need to try to house all Americans who deserve housing. I don't think anyone would advocate that every American doesn't deserve to live in decent, affordable housing. That is the problem I have.

All that being said, I guess I don't really have questions, per se, I just want to warn everyone—and I think everybody knows it, but I want to put words to it—we need to be a little careful when we talk about these public-private relationships when it comes to housing because there are social issues here that transcend it.

I am not opposed to private funding at all, but I think that when we get into agreements, we need these agreements to be clear, unequivocal, and have an exit plan when it comes. Because whoever invests in it today, may sell it between now and then, and we will be dealing with somebody we have never met before.

Ms. Crowley, I don't want it to look like I am 100 percent in favor of all things low-income. There is a proposal from your agency to cap the mortgage deduction at $500,000.

Ms. CROWLEY. Yes, sir.

Mr. CAPUANO. I don't know, but I guess I need to ask, you do realize that housing costs are different across the country, and that a $500,000 home in Omaha, Nebraska, is a castle, whereas a $500,000 home in my district is a very moderate home. I know you know that, but I hope you take that into consideration in your policy.

Ms. CROWLEY. Can I reply?

Chairman LUETKEMEYER. Very quickly.

Ms. CROWLEY. We actually can tell you the number of mortgages over $500,000 in every single county between 2011 and 2013, and I can get you the numbers for your district.

I have the numbers from Missouri, and in those 3 years, 1.1 percent of the mortgages made in Missouri were for over $500,000. There are hotspots in the New York Metropolitan Area, the Washington Metropolitan Area, and the San Francisco Bay Area, Boston and Los Angeles secondarily, but in the rest of the country it is a non-issue.

Chairman LUETKEMEYER. Very good.

I thank the gentleman. His time has expired.

Now we go to the gentleman from Kentucky, Mr. Barr.

Mr. BARR. Thank you, Mr. Chairman.

And thank you, to the witnesses, for your testimony.

Mr. Fennell, I am interested in your testimony, particularly your testimony about how the policy focus needs to be on uplifting the poor by integrating them into more income-diverse and stable communities. Can you expand on that a little bit and how you would propose that Congress make some reforms to encourage more income-diverse communities?

I know one of your suggestions in the written testimony is to make some changes to the Low Income Tax Credit, and I am very interested in that program and I do think that we can improve that program to incent private capital into the affordable housing space. So if you could just amplify—

Mr. FENNELL. Sure. As a practitioner, I can tell you that the Low Income Housing Tax Credit program has been very important to the stable of properties that we have been developing for the last 15 years, and I think that perhaps we take a more conscientious development approach overall, but the idea of trying to create policies that give flexibility down to the public housing authorities and to the local jurisdiction I think is the answer towards trying to solve community problems, and uplifting the poor really is a burden that falls on all of us to figure out how we can responsibly engage in community development and to look for opportunities that include all members of that community into the neighborhood.

So whether it is creating healthier apartments, or whether it is locating a doctor's office on the ground floor of a building and trying to bring better health care facilities to a neighborhood, or whether it is trying to make sure that there are jobs and opportunities for work through either the construction process or even post-construction during the operation of the building, those are all ways in which we have tried to try to uplift the communities we work in.

Mr. BARR. I think you also suggested raising the cap of the AMI?

Mr. FENNELL. Yes. So—

Mr. BARR. And I also wanted you to address the floating tax credit rate and—

Mr. FENNELL. Sure. Ms. Todman talked a little bit about the different neighborhoods that we have been moving into throughout the City, in terms of introducing residents into higher rent.

East of the river in Washington, D.C., you have a dynamic where we are trying to bring higher incomes into a neighborhood because there is such a concentration of poverty. So by allowing a little bit of flexibility going from a 60 to an 80 percent cap, but keeping the 60 percent blended average for a project as a whole, you are enabling more income diversity and not turning people away.

In terms of the floating rate, whether it is 9 percent or 4 percent, the 9 percent did get fixed for a while, and we saw that was tremendously advantageous towards attracting more private capital. The issue is is that if you rely on a floating rate, you are never quite sure how much equity is going to be coming into your property, and so you are always balancing that pro forma to the very end, which creates risks and uncertainty.

So by fixing the credit rate amount you can drive more capital and have more predictability and more certainty as you are working on pre-development and getting financing approved.

Mr. BARR. Mr. Evans, could you speak a little bit about the Moving to Work demonstration program and what lessons have we learned from that?

And if you could, for anyone, since our time is limited, when we talk about Moving to Work, could you talk a little bit about the possibility of reforms to Section 8 that would incentivize as a condition of receiving Section 8 assistance some encouragement for able-bodied people to actually work or demonstrate an effort to receive job training?

Mr. EVANS. I can speak specifically to a project that I have managed for the last 10 years, and it builds a little bit on what Mr. Fennell was just saying.

We managed a program that required in order for a person to receive that voucher they had to go through a fairly robust pre-counseling training program, where they were provided information about jobs, credit, the things that are important to landlords, how to be a good neighbor, and just some really basic skills. We partnered with banks and other community organizations to bring in outside support so that people could open bank accounts and learn more about the schools and public education and how to educate your children. So those are things that were able to be done under an MTW-type program.

Mr. BARR. Thank you.

I yield back.

Chairman LUETKEMEYER. The gentleman yields back.

With that, we go to the distinguished gentlelady from California, Ms. Waters, the ranking member of the full Financial Services Committee.

Ms. WATERS. Thank you very much, Mr. Chairman, for this hearing.

And to our witnesses here today, thank you for being here.

I am focused basically on how we can create more affordable housing for the many citizens of this country who cannot find places to rent. I am focused on homelessness not being dealt with in ways that would reduce it, but it is exploding in downtown Los Angeles and other places.

And I am listening to the discussion about the private sector getting involved with low-income housing development opportunities.

And before I came, Ms. Crowley, someone said that you had talked a little bit about the fact that the opportunities are there now. The need is great all over this country, and if the private sector wanted to be involved they certainly have a lot of opportunities to do so because we have people who work every day who cannot afford rentals.

So I am not so sure what we are talking about when we talk about encouraging or doing something to eliminate public support and somehow it is going to be taken over—could be taken over by the private sector. I would encourage them to do that now.

And on public housing, the RAD program, I am very, very suspicious that this is an effort to privatize public housing. I know that we have those who manage public housing who would say, "We don't have money to renovate. We don't have money to provide the repairs and the renovations that are needed," et cetera, et cetera.

But I think we need to rethink all of this. One of the reasons we have to protect public housing is because this is housing for the most vulnerable. This is housing for people who cannot access housing through our rental markets, et cetera, et cetera.

And I am looking at CDBGs, for example, and I am looking at the ways that CDBG is spent in the cities—a little bit here, a little bit here, so politicians can make people believe they are doing something for them. We ought to consolidate that HOME money, that CDBG money, and put it all into housing and all into low-income housing. I think that would make a lot more sense than what is being done with a lot of that CDBG money now.

So, I am paying a lot of attention to RAD. I am paying a lot of attention to what could happen with RAD.

Of course, if we get the banks and funders involved, what are we going to do? We are going to forfeit. We are going to end up with debt.

And then they can—they will end up taking it over and somehow we will walk away saying, "Well, our hands are clean. We only tried to do the best for public housing. We just couldn't keep up the payments on the money that we borrowed," et cetera, et cetera. And I just really don't intend for that to happen on my watch, and I think we have to pay a lot of attention to that.

Ms. Crowley, I know that you know, but you may not have thought about this—do you think that my idea of consolidating the resources that are supposedly dedicated to helping low-income CDBG and HOME and others that is being spent oftentimes to help local communities get a new fireplug or something—I don't know what they do with the money—but what do you think about consolidation of those resources?

Ms. CROWLEY. Ms. Waters, you won't get any argument from me, Sheila Crowley, about that. I think that would be grand. I think that the more money we dedicate toward solving the housing problems of the very poor, the better off we will be.

I am not going to tell you that is the official position of the National Low Income Housing Coalition. I suspect that your committee ranking member, a former mayor, would not be happy about giving up his CDBG resources.

But I think that the more targeted, the more focused, the more specific we are about housing for this population with the resources that we have, the more likely we are to begin to turn the corner on it.

Is CDBG going to be enough? No. But it is more than we have now.

The problem with HOME—which is a great program—is that it is not deeply targeted. The tax credit is not deeply targeted. CDBG is hardly targeted at all. If you are going to do that, you have to figure out how to make the housing affordable to extremely low-income folks.

Chairman LUETKEMEYER. Thank you.

The gentlelady's time has expired.

With that, we go to the gentleman from New Mexico, Mr. Pearce, for 5 minutes.

Mr. PEARCE. Thank you, Mr. Chairman.

And I thank each one of you. Sorry I missed your statements, and so my questions might be a little bit random.

If they don't apply to you just—we will scoot it to the next one on the panel. How is that?

Mr. Fennell, we are going to start with you, and this is a follow-up to Mr. Capuano. I really appreciate his viewpoint on life. We really began about the same, both from very blue class families, scraping just to make ends meet. He ended up a liberal Democrat, and I ended up a conservative Republican, to show you how unfair life is and random life is.

But that statement that he left—I want to question that no privately-funded affordable housing exists without the government. So my question is, the first house my family had was $800 and it was about 800 square feet, so a dollar a square foot. That was back in the 1950s so it was a different time then, but still, that is pretty cheap housing.

And we paid for that. Mom said they were paying like $19 a month to the bank.

And then, our next house was $1,500. We doubled our propensity for wealth.

Would those be examples of affordable housing funded by private sources, in your opinion, yes or no?

Mr. FENNELL. I'm sorry, I—

Mr. PEARCE. Would that $800 house or that $1,500 house—that is not affordable housing?

Mr. FENNELL. That is affordable, but it doesn't exist—

Mr. PEARCE. That is affordable housing, so—and it was privately funded.

So let the record reflect, Mr. Chairman, that there is at least one example in American history—I suspect it is a little bit broader, but I suspect we have a few people out there who are making their way along life's dreary pathway without government funding. That is not really—I just was going throw that in.

My real question is, how much of the population stays long-term in public housing, just roughly? We are not trying to prosecute anything here. Twenty percent? Fifteen percent? Ms. Crowley?

Ms. CROWLEY. Over half of the population are elderly and disabled folks, so public housing is their home.

Mr. PEARCE. No, no. My question is how long—how many stay long-term? We had a little briefing earlier this morning where it said the average is 6 years, but how many stay—

Ms. CROWLEY. If you look at the elderly and disabled folks, they are going to be there much longer because there is no place else for them to go.

Mr. PEARCE. So 20 years, 30 years—

Ms. CROWLEY. But if you look at the non-elderly and non-disabled folks they stay—the average, I think, is about 2 years. I would have to look at the latest data, but it is certainly under 5 years for the non-elderly, non-disabled people.

Mr. PEARCE. That is getting way more complex than what I was looking for. I was just trying to get a rough feel.

Mr. Evans, do you have any ideas about what percent of the people in public housing stay there for a very long time—20 years, 30 years?

Mr. EVANS. I don't know.

Mr. PEARCE. Does anybody on the panel know that?

Nobody?

Ms. TODMAN. Yes. Our average tenant at the housing authority is about 10 to 12 years.

Mr. PEARCE. Okay.

Ms. TODMAN. The ones who are on the higher end are the families Ms. Crowley spoke of, are seniors and disabled.

Mr. PEARCE. So would you have 10 percent maybe who are there long term? Because my question is why don't we, instead of paying rent for 45 years or 50 years or however long they are going to be there, why don't we take that segment of the population and simply let that stream of payments pay off the facility? It is going to be theirs. Let them own it.

So what would be the shortcoming to that? You appear to be—

Ms. TODMAN. Yes. The challenge that we would have in D.C. is the homeowner's ability to sustain the operation of it, because we are dealing with clients who make about $12,000 a year, on average, and that is—

Mr. PEARCE. But you are paying everything for them right now, so what is the difference if they own it and maybe we just don't have interest payments or whatever payments—

Ms. TODMAN. But yes, the slight difference is that they pay 30 percent of their income toward rent, and as a landlord we are responsible for the operating costs. And if you are a homeowner you are responsible for all of the operating costs no matter your income.

So we certainly have homeowners who are low income who have achieved homeownership. But as a rule, I don't suspect most of our clients could sustain the operating costs of a house that they own. We hope that they achieve that, but as it is right now I don't think they could.

Mr. PEARCE. You don't think that if they owned the house that the operating costs would be less than paying the rent year after year after year—

Ms. TODMAN. No. Because they still have utility bills, toilets still break, they still need—

Mr. PEARCE. They still have that, even in the rent. I am not trying to argue with you; I am just trying to find a way forward, whether we can make the dollars go further, because it appears like the system is just regenerating itself decade after decade, and it is time for us to redesign the whole system, in my opinion.

Ms. TODMAN. I think there is a way for us to move forward, and I think it is moving those families into an income bracket that allows them to be self-sustaining. And that is hard work, but it is not impossible.

Mr. PEARCE. Yes, but that is going to occur somewhere after them owning their own home, moving people up the income stream. And that is one of—I see my time has expired—we will talk another time about this.

Thank you, Mr. Chairman. I will yield back.

Chairman LUETKEMEYER. Thank you.

The gentleman's time has expired.

With that, we go to the distinguished gentleman from Texas, Mr. Green, for 5 minutes.

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

I thank the ranking member, as well.

And I especially thank the witnesses for appearing today. Your testimony has been most informative. Thank you very much.

If I may, I would like to talk about the HUD Jobs Plus pilot program. My trust is that someone will be familiar with it to some extent.

But it is a program that has about $24 million in it over the next 4 years. It is to be tested in nine public housing authorities.

And the centerpiece of the program, from my perch, is that it freezes rent. It freezes rent such that if you have a job that pays more, if you get a better job, your rent is frozen, which means you are now in a position to take that additional money and do other things to improve your life. In a sense, it provides an increase in salary.

It takes what I perceive to be a holistic or nearly holistic approach. It provides job training; it provides counseling; assistance with acquiring additional education, a GED perhaps; and other aspects of it that will help the person do more than look for a job.

Ms. Todman, are you familiar with the program?

Ms. TODMAN. I am familiar, but we are not a Jobs Plus recipient.

Mr. GREEN. But tell me about the concept—the concept of freezing rent, taking what I perceive to be a nearly holistic approach. Does that concept seem to benefit the person in the public housing authority?

Ms. TODMAN. One of the things that we see, and some of my colleagues see, is a barrier to—

Mr. GREEN. May I just ask one small question of you, kindly? If you could start with yes or no, it would be helpful, because sometimes when people finish I don't know whether they said yes or no.

So does it appear to you that this will help people who are in public housing?

Ms. TODMAN. Yes.

Mr. GREEN. Okay. Thank you. Now, if you would continue?

Ms. TODMAN. Oh, should I go—okay.

Mr. GREEN. Yes, ma'am.

Ms. TODMAN. In short, then, it would just—if someone's rent is frozen and they are able to earn more income and keep that income, it might actually be an incentive to some of our clients finding a better job, keeping a job. And so I think that it would work well. I think in the areas that have it it has worked well. And it would be an incentive in many ways.

Mr. GREEN. Thank you very much.

Ms. Crowley, would you kindly give your response to my question: Does it appear to be something that will be beneficial to the recipients?

Ms. CROWLEY. Yes.

Mr. GREEN. And then elaborate to the extent that you would like.

Ms. CROWLEY. Yes. The concept of the earned income disregard is if you are participating in a certain program then the increase in rent that comes from increase in income doesn't occur, and so you are motivated to continue to earn more money. That is one of the features of the current system.

The flip side of that, of course, is that if you lose your job then your rent can go down, and so you are not in danger of losing your home.

I think all those programs make a lot of sense. I don't know how you take them to scale without additional resources.

Mr. GREEN. That is an excellent point, if I may say so—additional resources—and I plan to address that. But continue, please.

Ms. CROWLEY. I just heard that the Houston Housing Authority is partnering with Home Builders Institute, which I think very highly of, for their Jobs Plus program. It is an organization that trains people for construction jobs, and so I think that will be a very promising program.

Mr. GREEN. Mr. Evans, would you just kindly—because time is of the essence—do you think this benefits—as a matter of fact, just let me have you raise your hands, the two remaining witnesses. Do you think that this will benefit the recipients—this type of program?

Mr. EVANS. Yes.

Mr. FENNELL. Yes.

Mr. GREEN. All right. Now, let me go to, with my time that is remaining, what the President has requested.

In his Fiscal Year 2016 budget he has requested $100 million for this program: $100 million. That seems like a lot of money, except that on this committee we deal in billions.

And I know that every penny counts. I want to make sure taxpayers get their money's worth for whatever we do.

But the President is requesting $100 million for this program, which is an $85 million increase over Fiscal Year 2015. Understandable.

But this is the kind of program, it seems to me, that would receive some sort of bipartisan support because it allows the person to pull himself up by his bootstraps—we talk a lot about bootstraps. It allows the person to go from welfare to self-care. It allows the person to have some degree of control and autonomy that ordinarily does not exist because you are locked into a job, you are not incentivized to get another.

I thank you for allowing me to go over, Mr. Chairman, and I yield back the balance of my time praying that the President's program will get the $100 million he has requested.

Chairman LUETKEMEYER. The gentleman's time has expired.

With that, we go to the gentleman from Michigan, Mr. Kildee, for 5 minutes.

Mr. KILDEE. Thank you, Mr. Chairman.

And I thank the witnesses for their presence and testimony.

I arrived at the hearing a little bit late, so if some of this is redundant, I apologize for that. But I would like to follow up a bit on what the ranking member was referring to.

I come from Flint, Michigan, and I represent Flint and Saginaw, Michigan, and some of you might be familiar with the story of those communities. It is not dissimilar from the story of a lot of older industrial communities that have had substantial population loss. So one of the things I would like to get some reaction to is the unique challenges that these places face in this regard.

While we have growing income inequality in this country, people who work hard every day just have a hard time making ends meet and their wages just don't keep up with the cost of raising a family in this country, every panelist—at least most who responded—acknowledged that the private sector on its own would either not do it or would have a very difficult time providing quality affordable housing without some form of assistance from some form of subsidy. The metrics, the money just doesn't work.

In the places that have had significant population loss, there is this additional hurdle. First of all, the programs like CDBG and HOME, as the ranking member mentioned, are not targeted to maximize their impact on markets, and the Federal Government continues to reduce its commitment in that space. And I wish the President had asked for significantly more money in his budget for CDBG and HOME.

But at the time when we have growing income inequality, there clearly is no way for the private sector to fill the void to provide the kind of housing that every American deserves, and the Federal Government continues to reduce its support, at least in that space, these communities that have had population loss, they have this one really big hurdle to overcome that goes beyond that, and that is the presence of surplus, vacant, abandoned housing that not only reduces the quality of life in the communities that we are talking to, but it reduces overall tax revenues in those communities because it depresses property values. The single greatest source of revenue for most cities is based upon property values.

And vacant, abandoned properties have a higher cost to communities than occupied housing. It costs more in local tax dollars to deal with an empty house than it does to deal with an occupied one. They are more likely to burn; they are more likely to be a source of crime; and they depress the value of everything around them.

So here is the question: Confirm for me my conclusion that there is no market basis for private capital to come into a community and deal with the overhang of vacant and abandoned housing because there is no way to internalize the positive externalities of that kind of investment unless the community figures out how to deal with its entire inventory of housing and come up with a more homogenized economic model so that the value of housing that is supported by reducing the oversupply of vacant properties can somehow be internalized into that economic model.

Does that make sense? Do you understand the point that I am trying to make? It is really an important one, and it is one that often is missed.

Let me make it more clear: If we don't figure out a way to clear away the remnants of the past in these older communities, we can talk about all the subsidies we want to talk about, but we are not going to be able to get housing values to a place where the market is going to be attracted to come into communities and make private investment without the kind of subsidy that we can't even imagine putting together, even at the Federal level.

Ms. Crowley, I wonder if you might comment?

Ms. CROWLEY. So the question is, what do we do about vacant and abandoned properties? Is that the question?

Mr. KILDEE. That is the question, but the question assumes, though, as some have assumed, that somehow there is some private incentive to deal with that, and I just don't see it.

So that leaves the Federal—State or Federal Government, because local governments can't do it. They are already stressed as a result of all the vacant property in their communities in the first place.

Ms. CROWLEY. Right. What you do about ownership of those properties and those kinds of things, those are all local and State decisions. There is not much of a Federal role in solving that piece of it.

But obviously, we invested during the foreclosure crisis in the Neighborhood Stabilization Program and other things that would put resources at the local level to try to prevent complete decimation of neighborhoods and dealing with blight that happened as a result of that.

This program had mixed success because it was put together fairly quickly in the middle of the crisis, but that is the kind of program that I think it would take to do that.

The notion that there is going to be a private investor who is going to drive into Flint and say, "Oh, look at all this opportunity," seems a little far-fetched to me.

Mr. KILDEE. Yes. It is not going to happen. I agree with you.

Thank you.

Chairman LUETKEMEYER. Thank you, gentleman from Michigan.

Next up is the gentlelady from Ohio, Mrs. Beatty, for 5 minutes.

Mrs. BEATTY. Thank you, Mr. Chairman.

And thank you, Ranking Member Cleaver.

And thank you to all our witnesses today, especially to someone who gets her hands dirty every day in doing the work in public housing.

Thank you for being here, and thank you for what you do, and for also representing those who are the poorest amongst us.

I have had a long history of some 25 years working with HUD and public housing as a consultant doing relocation work, so we have heard a lot today across the gamut.

I found it very interesting that one of my colleagues this morning talked about being "100 percent private" and that he was private and doing it privately was the best way to do it. I come from the private sector and owning a business and working with public housing, but I also spent a lot of time, like my colleague, and I am sorry he is not here this morning, who is in government, whether he knows it or not, now.

So I tend to think that we need to be creative with our public and private partnerships when we can.

Mr. Kildee talked a lot about the President and the dollars that he has put into public housing and I certainly agree with him that I wish the President would have put even more money into it.

Just this week, I had someone from Homeport in my district in Columbus, Ohio, to come in and talk about much of the data, so I won't repeat it, what you have all talked about—the number of—how we are increasing with those who are renting, how I know my colleagues on both sides of the aisle want people to be self-sufficient. But as I was having a dialogue with my ranking member, Congresswoman Waters, if you are disabled and you are a senior, to ask if they are going to be there 4 or 5 years—if I am 70 years old and I am disabled or I am a senior, I might have to be there for 12 or 15 years.

But I also want to take away the myth that those who are working towards self-sufficiency and self-reliance don't stay for 12 and 20 years on the norm. It is more like a 2- to 3- and not longer than a 5-year period.

With all this said, I guess I would ask all of you to be creative—maybe you won't be quite as creative as Congresswoman Waters this morning, who is going with comingling everything for housing, but think about in many of our communities when we run out of money, and that is the common theme we have been hearing.

So where private and nonprofits have used up all their Federal funding while attempting to revitalize and restore the neighborhoods and the communities, are there—what is our hope? What is it, as experts on either side, do you think we could do? And also, in that question, you can think about the project-based vouchers, because we are hearing the same thing, that we are running out of money. So on those, if we increase the cap would that be helpful?

Ms. TODMAN. I am happy to start.

Certainly on the project-based voucher side, we have been able to go into a lot of neighborhoods where we don't have any property and provide subsidy to units so that low-income families can live there, and we are all throughout the City, including some very high-rent areas.

I would say in terms of how do we revitalize certain communities, there is a tool that we use called new market tax credits that is a powerful tool—very powerful. We were very fortunate to have a $50 million allocation recently, and we have been able to become community developers with our private sector partners and guaranteed jobs for some of my residents because of our investment in that community development project.

So there are lots of different tools that may not sit in the housing basket.

Mr. EVANS. Yes. You asked specifically about raising the caps on project-based vouchers, and in my written testimony there is a recommendation there that that cap be evaluated and maybe raised to 35 or 40 percent of the total for project-based vouchers.

But also, rather than looking at project-based vouchers based on the budget authority, look at those based upon the unit allocation, and there will be probably a slightly higher number of vouchers that could be made available for project basing.

I also think that it is really important to remember that all of these matters of real estate are local issues, and there aren't one-size-fits-all solutions to national problems. As we heard from each of the different districts, there are different challenges, there are different things that face each community.

And the programs that get retooled or that get reevaluated or created need to really focus on how to use the public investment to leverage private capital and private involvement.

Chairman LUETKEMEYER. Thank you. The gentlelady's time has expired.

We will go to the gentleman from Ohio, Mr. Stivers, for 5 minutes.

Mr. STIVERS. Thank you, Mr. Chairman, for holding this hearing.

I would like to thank the witnesses for being here. And I am going to begin with some of the questions that the gentlelady from Ohio asked, as well, because she and I are working on some stuff that I think can help a lot of folks.

But before I do that, I wanted to ask Ms. Crowley, in your testimony on page 3, you say there are 25,000 homeless children in New York City alone. Are you aware that the definition of homelessness under Housing and Urban Development leaves children out?

Ms. CROWLEY. No, I wasn't. I think that it covers children who live in families, so it covers families. And the number of households in New York who are homeless is, I think, 60,000, and so 25 percent: the number of people is 60,000, and the number of those who are children is 25,000.

Mr. STIVERS. So the definition does exempt out anybody under 18, so if you are under 18 you are just not counted. It is—

Ms. CROWLEY. They are counted. That is the official count, so they are counted.

Mr. STIVERS. Sorry, ma'am. We need to amend the definition. There is a bill out there. It is a bipartisan bill that I am the sponsor of, along with Mr. Loebsack of Iowa, to fix that.

We have to fix that. If we are going to serve homeless children, we have to define the problem first.

So I would ask you to take a look at that bill and we would appreciate your assistance in advocating for that bill because it is really important. Unless you can define the problem, you are never going to serve the population.

My next question is for Ms. Todman.

You note in your testimony that the D.C. Housing Authority works very closely with a lot of private and nonprofit developers to create affordable units for low-income families and development projects where, but for your public-private partnerships, these families couldn't even afford to live in the district. Do you think you would have been able to facilitate these public-private partnerships if you were not a Moving to Work agency?

Ms. TODMAN. There are some deals that do not require our Moving to Work flexibility, but there are some deals where the rents are very high and our public housing subsidy is not able to meet the needs of the structure, and we have used our Moving to Work fungibility to make those deals work.

Mr. STIVERS. So for the majority of the housing finance agencies that are not Moving to Work, how can they achieve the same level of public-private partnerships, and is that another reason why we should expand the Moving to Work program?

Ms. TODMAN. Certainly for those housing authorities in high-rent areas, I think an expansion is a very good thing to do. For those housing authorities in lower-income brackets, Moving to Work still works because it allows them to even sometimes make the deals work when we are working in the voucher program.

Mr. STIVERS. This is a general question for the entire witness panel: Does anybody on the panel believe that opportunities for vertical mobility are more readily available at Moving to Work public housing agencies than other housing authorities?

Anybody want to take that?

Ms. TODMAN. I will just say that at my housing authority, because we are not funded for—to help folks increase their incomes, we have used our block grant to work with service providers to provide that ability.

Mr. STIVERS. Yes. And in the 112th Congress, this subcommittee held a hearing, and one of the witnesses from the Chicago Metropolitan Housing Authority said the landscape of Chicago and the life trajectory of thousands of low-income families would not be the same without the flexibility that the Moving to Work program gave us.

And I think that is the case regardless of what type of community you live in, and the Moving to Work program is, unfortunately, limited to just a few places, and I think it is really important that we provide that same flexibility to allow these families to be lifted out of poverty.

The goal that all of us have is not that we give more housing assistance; it is that we ultimately lift people out of poverty. And that is the mission with which you all are charged.

But Moving to Work helps these people get out of poverty because it serves the whole person. So Mrs. Beatty and I have a bill that would expand the Moving to Work program, and it is really important to help thousands of people around our country lift their lives out of poverty, and live the American dream.

I appreciate everything you are all doing, and we are working to try to get you the resources and flexibility across the country that we need to actually lift these people out of poverty.

Thank you, Mr. Chairman.

Chairman LUETKEMEYER. The gentleman's time has expired.

With that, we go to the gentleman from Missouri, Mr. Clay, for 5 minutes.

Mr. CLAY. Thank you, Mr. Chairman.

Let me thank the ranking member too, Mr. Cleaver, for both of you all conducting this hearing.

And I thank the witnesses for being here.

Let me ask Ms. Todman, to what extent have problems with private capital affected your ability to complete your redevelopment? It is my understanding that only about half of the Capper/Carrollsburg public housing units that were demolished during that award-winning redevelopment have been replaced, and many residents are still displaced. That HOPE VI grant was made in 2001 and the residents have been displaced for more than a decade now, since 2005.

How much of that delay is due to problems with accessing private financing?

Ms. TODMAN. Right. The time delay in Capper/Carrollsburg, some of it is because of what happened in 2008, when the market kind of tanked. It didn't tank as much here in D.C., but it certainly did.

I will say that we have built more than half of the public housing units that were promised on that site, and the housing authority made that one-for-one commitment in 2001 before it was vogue. So we are now relying on the value of the land to bring back those public housing units.

And for the residents who do not live there anymore, they are still afforded affordable housing through our existing public housing units or through the voucher program. So, they are housed.

Mr. CLAY. So even though D.C. didn't have as much of a negative impact during the recession economically, you also lost investors?

Ms. TODMAN. Economically, it was harder for our development partners to make deals work, particularly given the level of subsidy that we were bringing to the table, because the HOPE VI grant had not expired, but the funds were gone and the public housing subsidy was so low.

Mr. CLAY. What lessons have you learned so that you don't have that same problem with Barry Farm?

Ms. TODMAN. Yes. So Barry Farm is a different animal. One, the economic market in D.C. is much different than it was 10 years ago, so we are relying on that.

Also, there are certain protections that we are wrapping around our families in terms of their ability to return. But let me just say that when we are relocating our clients, our goal is to provide them affordable housing so even during that relocation they are properly housed.

But we certainly are looking at the lessons learned in Capper/Carrollsburg in terms of speed, and just hope we don't hit another recession.

Mr. CLAY. Will Barry Farm be a mixed-income development?

Ms. TODMAN. No. Barry Farm is currently a 100 percent public housing site of about 440 units.

Mr. CLAY. I am very familiar with it, but in the—

Ms. TODMAN. Yes, the goal—the ultimate goal is to make it mixed income to the tune of 1,400 units, and we would have units there that are affordable to teachers, firemen, and other moderate-income families.

Mr. CLAY. Okay. Although D.C. struggled in the housing crisis, impacting the DCHA's ability to rely on private capital, the D.C. market is still far stronger than much of the country. Do you believe that it is possible to replicate the work you are doing here in other parts of the country?

Ms. TODMAN. Yes. I think we are able to do a lot of our work because of the value of our land, and if that value doesn't exist in other lower rental markets, it is probably more difficult for housing authorities to achieve that—more complex, more difficult, longer than we would have. So the strength of our market helps us a great deal in creating affordable housing.

Mr. CLAY. Okay. Then I think we need to export that lesson to St. Louis, because we have about 14,000 vacant lots owned by the City of St. Louis.

Ms. TODMAN. Right. We are happy to help.

Mr. CLAY. Thank you so much.

Ms. Crowley, most affordable housing projects in the current environment are not developed in isolation. They are usually part of broader initiatives to revitalize neighborhoods, which may include a need to integrate several layers of funding sources.

Can you talk about some of the ways we can work to continue to harmonize the programs so that they, to the maximum extent possible, deliver the best affordable housing possible while also eliminating the difficulties that can sometimes arise in the process of layering different funding sources?

Ms. CROWLEY. Sure. You are absolutely correct that the layering that happens in the development of these projects is extraordinary.

On the one hand, we call it leveraging and we say it is a good thing. On the other hand, it creates extremely complex deals that require lots of expertise to put them together and to figure out how to blend funds that have different reporting requirements, different terms of affordability, all of those kinds of things.

And it should be noted that having all of those things increased the cost of the projects, and so the more layers you have, the more costly the project is going to be.

So certainly there is room to figure out how to make the rules more harmonized. I think in the tax credit program there has been an effort—I'm sorry.

Mr. CLAY. My time is up.

Ms. CROWLEY. Okay. I'm sorry.

Mr. CLAY. Mr. Chairman, I yield back.

Chairman LUETKEMEYER. The gentleman's time has expired. I now recognize the gentleman from Minnesota, Mr. Ellison, for 5 minutes.

Mr. ELLISON. I thank the chairman and the ranking member.

Ms. Crowley, what is it that you were trying to say?

Ms. CROWLEY. Recognizing that problem is one that the White House and HUD started to work on very early on in the Obama Administration and they have a working group between Treasury and HUD to try to solve some of those problems.

Mr. ELLISON. Ms. Crowley, what is the Common Sense Housing Investment Act, and do you support it? And if so, why?

Ms. CROWLEY. The Common Sense Housing Investment Act is your bill that would make modest changes to the mortgage interest deductions and modernize it to bring it into the 21st Century, and in the process of doing so, would help a much greater number of low- and moderate-income homeowners who don't benefit from the mortgage interest deduction now and would also free up billions of dollars in revenue that could be devoted to solving the housing problems of the very poor.

It is a brilliant bill, and we support it. And not only that, we organized organizations and State and local elected officials across the country in a campaign to support the bill. There are more than 2,000 now, and they are found in every single congressional district. So we have support for the bill from every district.

Mr. ELLISON. Do you think it has the potential to help people who are very low-income? The fact is that there are programs that help people who are working poor, but what are the problems and challenges of housing for people who are at the very low level of the income scale?

Ms. CROWLEY. Do you mean extremely low-income?

Mr. ELLISON. Yes.

Ms. CROWLEY. Okay. So that is the population for whom there is the greatest shortage, and that is the population to whom most of the funds in your bill would be directed towards trying to solve their housing problems and filling the void that exists now in the rental housing stock.

The beauty of it is that not only would the bill create more money to be able to do housing that is affordable to the lowest-income people, you also make the tax code more fair and simpler, and provide tax benefits to low- and moderate-income homeowners who don't get a tax benefit now because their incomes are not high enough, or their mortgages are not high enough, or both, to benefit from the mortgage interest deduction.

And so we would expand the number of homeowners who get a tax break for having a mortgage by 16 million under your proposal, and 100 percent of those are people with incomes under $100,000 a year who don't benefit from it now.

Mr. Capuano has left, but he posed a question to me about it, to which I now have the answer. One of the things in your bill is that we would cap the size of the mortgage for which you could claim the deduction at $500,000. You can borrow more than that; you just don't get a subsidy above $500,000.

In his district, 9.2 percent of the mortgages between 2011 and 2013 were for over $500,000—less than 10 percent. Most people don't borrow that much money.

Mr. ELLISON. Yes. So there is this little school in my district called Jefferson Elementary. It is a wonderful school. The problem is that 40 percent of the kids who go there leave a shelter to go to school every day.

That is not the only school like that. I bet you Ms. Todman has schools like that here in D.C., and they are all over the United States.

What does it mean for a kid who is leaving a shelter to go to school to be able to get into some stable housing that might be provided for by investments in extremely low-income families?

Ms. CROWLEY. I think it makes the difference between success and failure in a child's life. You only have to imagine what it would be like for you or for your children if you didn't have a stable home to go to every night and to be moving from place to place, living with uncertainty, never having a sense of anything that is your own. Even the best of shelters are not great places. I ran shelters. They are not good places for people to live.

Mr. ELLISON. Do the kids feel the stress of it?

Ms. CROWLEY. Absolutely. Absolutely.

Mr. ELLISON. Could you talk about that a little bit?

Ms. CROWLEY. The process of being displaced is stressful for every member of the family, and when Mom is unhappy and depressed and doesn't know where she is going to turn, and when Dad knows that he can't provide for the family, the kids feel that. They live that. They experience that. And all of that damages family well-being.

Mr. ELLISON. Thank you.

I yield back the time I do not have.

Chairman LUETKEMEYER. The gentleman yields back.

With that, I am the last questioner of the day here, and we are certainly—my colleagues have certainly discussed a lot of different things, and I think they have done a good job of going through the various areas that we wanted to explore today. And with that, my questions are kind of random, so bear with me because I want to try and fill in the blanks a little bit from what we didn't discuss or things that you brought up that sort of piqued my interest.

Ms. Crowley, you had a slide and the second slide you had, on the bottom there you have—you said there are the low-income people and said a lot of their space—their units are occupied by high-income individuals. Did I hear you right on that?

Ms. CROWLEY. If you look at the slide—and for folks in the audience, the Congressman has the hard copy—

Chairman LUETKEMEYER. Yes.

Ms. CROWLEY. If you look at that, what it means is this—the top band, the 19.6 million units, those are units that rent in the range that is affordable for people who earn between 50 and 80 percent of area median income. But if you don't have to live within your income band, you can rent below that.

And a large number of these units that are affordable at 30 percent for this population are actually rented by much higher-income people. And so there is the constant downward pressure on the units.

Chairman LUETKEMEYER. I guess my question is, are you saying that we should free up more lower-income housing units because there are a few people who are occupying them now who really can afford other things? That is my question.

Ms. CROWLEY. We can't do that, because it is a free market. These are people who are renting based on what is there, and so these are higher-income people who don't pay more than 30 percent of their income for their housing as a result of the way the market is set.

Chairman LUETKEMEYER. Very good.

Mr. Evans and Mr. Fennell, the title of the hearing today references private sector participation, and so my first question, obviously, is are there enough private sector dollars out there to do the kind of investments we need to be able to move our projects along here, or are we hamstrung by the lack of availability of capital right now?

Mr. EVANS. I would just say, as an example, the number of tax credit applications per year that don't get funded are all backed by—they are applications that have funding or financing available to make those projects happen. So there are probably thousands of units that the money is there to create—

Chairman LUETKEMEYER. Okay. The capital is there, you believe. Okay.

Does the current interest rate affect the availability of capital at all?

Mr. FENNELL. In the global sense, yes, it has some impact. But I don't think it is—

Chairman LUETKEMEYER. Normally, you would do the projects based on the availability of the cash flow, is that right? So the interest rate would play a part only to the extent that it has to be able to cash flow that cost of operation of the loan and the cost of operation of the facility. Is that roughly it?

Mr. FENNELL. Correct. It puts pressure on your pro forma. It puts pressure on your financing as you are trying to finalize—

Chairman LUETKEMEYER. But the interest rate doesn't generally hamstring the project because that is something that is normally figured in. I guess is one of the things I am trying to get to. Is that a fair statement?

Mr. FENNELL. Correct. It is one of the dynamics at work.

Chairman LUETKEMEYER. Okay. We are always looking for ways to try and stretch our dollars, and I think that is what we want to try and do here is find ways we can take existing dollars and do a better job of spending them.

One of the things—I was at a meeting earlier this morning and somebody suggested that we consolidate. We have 5,000 different housing authorities in the country. Is there a way we can consolidate those to have more—or an individual or group be able to manage more and therefore have less administrative costs and use those dollars then to plow back into our projects here? Is that possible?

Ms. Todman, I am sure you have some ideas on that?

Ms. TODMAN. I would be happy to run the housing authorities in suburban Maryland, but I am sure they wouldn't want me to. But having said that, we do have housing authorities that are smaller in nature that are creating locally derived consortiums, and working together to have some economies of scale, so that is happening.

But I would suggest that they made that decision locally and it is working for them, and I would suggest that is probably where the decision-making on that should be.

Chairman LUETKEMEYER. Are there incentives that could be put in place that would speed that along?

Ms. TODMAN. To the extent it is something that folks locally want to do, I am sure you can incentivize some smaller housing authorities to do that. Whether or not it is right for them is a different question.

Chairman LUETKEMEYER. Okay.

I normally don't do this, but I would like to give all of you some homework today, if you don't mind. I think that you have been a fantastic panel and what I would like to do—I am sure each one of you has some ideas on making—this is a government program and we are dealing with government agencies here. I am sure there are ways that you see in your work, and then each one of you has a little different perspective here, a little different area you are working in, that can be made more flexible, that would help you be able to save money, and make us stretch our dollars.

So if you wouldn't mind, I know some of you have suggestions in your testimony. I saw some of your suggestions.

But if you have some ideas where, given the flexibility to be able to go between pots of money or be able to use monies differently or be able to have more flexibility with whatever—not necessarily start a new program, not necessarily reinvent the wheel here, but take an idea that you can stretch the dollars out and not—and help more people with the same dollars. If you have ideas like that, would you be willing to just contact our committee and write a letter to us and give us those ideas? Because that is what we need to be able to do our job here, is to help more people be able to help you that way.

The second thing I would ask is, I know that there are always a lot of ideas for pilot projects. I have tons of people come through my office every day, literally, and each one of them has an idea and say, "If you would do this, we could restructure this over here and make it work, and it would be a way we can save money and do a better job with what we are doing."

The government is the last place you want to come to to have something be done efficiently and well. So if you would—if you have ideas for pilot projects—and you guys live in the everyday world. You know what works and what doesn't work.

If you have ideas like that, if you would include those in there—and obviously it is not something that is going to cost tons of money, but if it costs a little bit more money, that is fine because if you restructure something and you are able to get a huge cost benefit from just a few more dollars added to it, I don't have a problem with that. I would be certainly willing to take a look at that.

But I think you guys know what works. You deal with these issues every day. And to me, that is what we need—that is why you are here. We want to listen to you.

You have been a very good panel.

So with that, I don't have any other questions.

Ranking Member Cleaver, I believe we are ready to go.

Without objection, I would like to submit for the record a statement from Representative Patrick Tiberi of Ohio.

Without objection, it is so ordered

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

With that, this hearing is adjourned.
[Whereupon, at 11:21 a.m., the hearing was adjourned.]

A P P E N D I X

April 16, 2015

Testimony of Sheila Crowley, Ph.D., MSW
President and CEO of the National Low Income Housing Coalition
presented to the
Subcommittee on Housing and Insurance
Financial Services Committee
United States House of Representatives
April 16, 2015

Chairman Luetkemeyer, Ranking Member Cleaver, and Members of the Committee, thank you for the opportunity to testify today on the how to engage the private sector in producing and preserving affordable housing.

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

NLIHC's members include non-profit housing providers, homeless service providers, fair housing organizations, state and local housing coalitions, public housing agencies, private developers and property owners, housing researchers, local and state government agencies, faith-based organizations, residents of public and assisted housing and their organizations, and concerned citizens. We do not represent any sector of the housing industry. Rather, NLIHC works only on behalf of and with low income people who need safe, decent, and affordable homes, especially those with the most serious housing problems, including people who are homeless. NLIHC is funded entirely with private contributions.

We organize our work in service of three overarching goals for federal housing policy:

- There will be no further loss of federally assisted affordable housing units or federal resources for affordable housing or access to housing by extremely low income people.
- The federal government will increase its investment in housing in order to produce, rehabilitate, and/or subsidize at least 3,500,000 units of housing that are affordable and accessible to the lowest income households in the next ten years.
- Housing stability in the neighborhood of one's choice, which is foundational to good health, employment, educational achievement, and child well-being for people with the lowest incomes, will be the desired outcome of federal low income housing programs.

Any discussion about affordable housing has to begin with the clarifying question: affordable for whom? When we talk about affordable housing in the United States, generally we are referring to housing that is affordable to low income people, who are defined by statute as households with incomes of 80% of the area median ($68,000 for a family of four in the DC metropolitan area) or less. Affordable means spending no more than 30% of household income for housing, including utilities. In housing policy, low income is further categorized as very low income (50% or less of the area median), and extremely low income (30% or less of the area median). Table I compares 30% of the national median family income to the federal poverty level for a family of four. This shows you how poor families in the extremely low income category are.

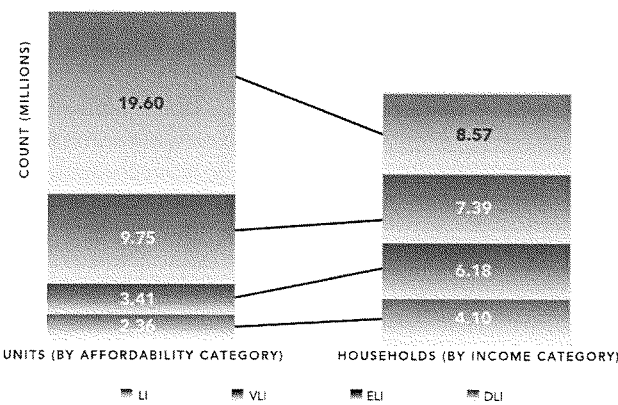
TABLE 1: FEDERAL POVERTY LEVEL VS. 30% MFI FOR FAMILY OF FOUR

Year	Poverty Guideline	30% of National Median Family Income	Difference
2000	$17,050	$15,060	$1,990
2005	$19,350	$17,400	$1,950
2010	$22,050	$19,320	$2,730
2015	$24,250	$19,740	$4,510

Figure 1 compares the number of renter households in these income groups to the number of housing units renting at prices they can afford. There is a surplus of housing affordable to the very low income and low income segments of the low income population and a shortage of housing that is affordable for extremely low income households. Remember, this is a national picture. In high cost areas, there is also a shortage for very low income households.

On Figure 1, you will note that NLIHC has added another category that we call deeply low income, with incomes at or below 15% of the area median. For a one person household, 15% of the median family income is $6,909 a year. These are the poorest of the poor, with even less income than people whose sole income is federal Supplemental Security Income (SSI). SSI for one person is $8,796 in 2015.

FIGURE 1: RENTAL UNITS AND RENTERS IN THE US, MATCHED BY AFFORDABILITY AND INCOME CATEGORIES, 2013



Source: NLIHC Tabulations of 2013 ACS PUMS data

The shortage of affordable rental housing is actually worse than is depicted, because many of the units affordable for one income category are occupied by people in higher income groups, making them unavailable for people in lower income groups. Thus, nationally, there are 10.3 million extremely low income renter households and only 3.2 million rental homes that are available and affordable to them. For every 100 extremely low income renters, there are just 31 affordable and available rental housing units. In Missouri, extremely low income renters fare slightly better. For every 100 extremely low income households, there are 34 units.[1]

The first consequence of this shortage is that poor people spend more than they can afford for their homes. Today, 75% of extremely low income renter households spend more than half of their income for their homes, and are one financial emergency away from not being able to pay the rent. Eviction often leads to homelessness. Changes in how federal homeless funds are spent and the infusion of $1.5 billion in additional rent assistance in the Recovery Act (ARRA) has reduced levels of homelessness in 34 states in recent years.[2] However, the number of homeless people remains alarmingly high, especially among families with children. There are 25,000 homeless children in New York City alone.[3]

[1]National Low Income Housing Coalition. (2015). *Housing Spotlight: Affordable Housing is Nowhere to be Found for Millions.* http://nlihc.org/article/housing-spotlight-volume-5-issue-1.
[2]National Alliance to End Homelessness. (2015). *The State of Homelessness in America 2015.* http://endhomelessness.org/library/entry/the-state-of-homelessness-in-america-2015.
[3]Coalition for the Homeless. (2015). *Basic Facts about Homelessness: New York City.* http://www.coalitionforthehomeless.org/basic-facts-about-homelessness-new-york-city/.

The 4.5 million households that receive federal housing assistance through public housing, project-based Section 8 housing, housing vouchers, and the smaller housing programs for elderly and disabled people[4] are the lucky ones. They are able to afford their homes as long as the Brooke rule remains in effect. Named after the late Senator Edward W. Brooke (R-MA), the rule codifies the industry standard of affordability being no more than 30% of household income. In public and assisted housing, federal appropriations are supposed to cover the difference between what tenants pay based on this standard and the cost of operating the housing.

Dating to the U.S. Housing Act of 1937, new public housing was built until the early 1970s. Any stock that became obsolete had to be replaced unit for unit until "one-for-one" was repealed in 1995. Since then, we have been losing public housing units to demolition and redevelopment. The Housing and Community Development Act of 1974 created the Section 8 program. This was a major shift in policy away from public ownership of low cost housing to public-private partnerships. The new housing was owned by the private sector, but financed and subsidized by the federal government. New Section 8 project-based properties were developed into the early 1980s, until Congress stopped appropriating funding for new construction. The number of these properties is diminishing as owners opt-out as their mortgages end. Preservation of the public housing and Section 8 project-based stock is a high priority for NLIHC and other low income housing advocates.

The 1974 Act also created the Section 8 voucher program, which provides poor families with an income supplement that allows them to more successfully compete in the private rental housing market. Congress increased the number of vouchers every year until 1995. Since then, we have had a few spurts of modest funding for new vouchers, most recently vouchers specifically for veterans. Although in dollar amounts, it may appear that the voucher program keeps growing, the growth is due to the conversion of assistance that was attached to public housing or project-based Section 8 to vouchers for tenants who were displaced as these hard units have been lost. The other factor is that the voucher program is market driven, i.e., rents go up, so appropriations have to increase just to maintain the vouchers already in place.

These "safety-net" programs differ from most other federal safety net programs in an important way. They are funded on the discretionary side of the budget. This means that simply being eligible for assistance does not guarantee assistance, and indeed only a quarter of eligible households receive assistance. This is why there are such massive waiting lists for housing assistance. Discretionary programs, subject to the annual appropriations process, also are much easier to cut than other safety net programs on the mandatory side of the budget. The discretionary programs are all subject to sequestration. Especially hit hard has been public housing.

Two approaches to preserving public and assisted housing that Congress has authorized are the Moving to Work Demonstration and Rental Assistance Demonstration programs. Each

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[4] HUD. (2013). *Picture of Subsidized Households*. www.huduser.org/portal/datasets/picture/yearlydata.html.

has its merits and its limitations. Both bring new resources to bear on operation and preservation of public and assisted housing. Many people want to significantly expand both. NLIHC opposes expansion of MTW in the absence of evaluation requirements to determine if the innovations public housing agencies are undertaking are helpful or harmful. We support RAD as long as the promised tenant protections are upheld and risk of foreclosure and loss of public ownership is minimized.

The subject of this hearing is how to engage the private sector in producing and preserving affordable housing. There are numerous opportunities for the private, for-profit sector to be involved, but only in the context of public-private partnerships. In the absence of a public commitment, especially a federal commitment, to affordable housing, there is no motivation for private investment.

The data about the housing shortage and the waiting lists for federal housing assistance show that there is a market for rental housing that extremely low income families can afford. If there were a profit to be made in building and operating this kind of housing, someone would have done it by now. There is a mismatch between what it costs to build and operate decent rental housing and what extremely low income households can pay. When the market cannot supply a good that is essential for the most minimal standard of living, it is the responsibility of government to step in to assure the well-being of its citizens and to maintain social order.

The private, non-profit sector is critical to solving the affordable housing shortage. All across the country, not-profit housing organizations are cobbling together multiple sources of funding to build and preserve affordable rental housing. But no one does it without public resources.

The main driver of rental housing production today is the federal Low Income Housing Tax Credit (LIHTC). Established in 1986, the LIHTC had supported about 2.5 million units through 2012. The Joint Committee on Taxation estimates the cost of the LIHTC as $7.6 billion for 2015.[5] LIHTCs are allocated to states on a per capita basis. State agencies administer the program. Private investors put up equity to support new or rehabbed rental properties in exchange for a dollar-for-dollar reduction in federal income taxes over ten years. It is a very popular program with investors.

Unlike traditional affordable housing programs, rents in LIHTC properties are not based on income. Rents are set at either 30% of 50% of AMI or 30% of 60% of AMI depending on which kind of rent restriction the developer is using. On its own, the LIHTC is not responsive to the housing shortage for extremely low income households.

NLIHC conducted a study of a random sample of LIHTC properties in five states to determine the degree to which the program serves extremely low income households. We

[5] Joint Committee on Taxation. (2014). *Estimates Of Federal Tax Expenditures For Fiscal Years 2014-2018.* https://www.jct.gov/publications.html?func=startdown&id=4663.

examined 104 properties with a combined total of 8,758 units. The income categories of residents broke down as follows: 0-30% AMI - 36%, 31-50% AMI - 35%, 51-80% AMI - 26%, and 81% AMI and above - 3%. We then looked at how many households in each income category also received tenant-based subsidies to keep their rents affordable. Seven in ten (69%) extremely low income and 22% of very low income households also received rent subsidies, 90% of which were Section 8 vouchers. Of the extremely low income households that do not have rent subsidies, 83% were paying rents they could not afford; 57% were paying more than half of their income for housing.[6] One of the key lessons from our study is the degree to which the Section 8 voucher program is shoring up the LIHTC program.

Voucher payment standards exceed tax credit rents in many markets, so voucher holders bring in more rent than non-voucher holders. Some non-profit developers use this "bonus" to reduce rents to affordable levels for extremely low income households that do not have vouchers, essentially using one voucher to house two families. The recent report by Abt on the Moving to Work program cites one PHA that has experimented with similar "stretching" of vouchers.[7] This is an area that needs more research to better understand how Section 8 voucher resources are being used and if there are good policy models to be incentivized.

Knowing that there will be no more Section 8 vouchers for the foreseeable future, NLIHC surveyed non-profit developers to determine if and how they serve extremely low income households without Section 8 vouchers. We found that it is hard to do, but not impossible. We showcased five case studies in our report.[8] The factors that contributed to their success are:

1. Cross-subsidizing. Rents from higher income households help pay part of the costs of renting to extremely low income households. Based on this finding, NLIHC recommends income averaging in LIHTC properties that will help them serve more extremely low income households by also serving more higher income households, above the current 60% AMI income limit. Income averaging will only be of use in high cost areas where rents based on 30% of 60% AMI are not competing with market rate rents.

2. Eliminating mortgage debt. This means acquiring all capital resources upfront and not carrying debt service as an operating expense.

3. Partnering with local governments. Collaborative relationships with local governments that know that adding affordable rental housing to their communities is good and necessary are essential to success. Local governments can support the development of affordable rental housing by donating land, cutting red tape, providing property tax exemptions, and bringing non-housing resources, such as social services, to deals.

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[6] National Low Income Housing Coalition. (2014). *Aligning Federal Low Income Housing Programs with Housing Need.* http://nlihc.org/library/research/alignment.
[7] Abt Associates. (2014). *Innovations in the Moving to Work Demonstration.* http://www.pahrc.org/studies/InnovationsInTheMovingToWorkDemonstration.pdf
[8] National Low Income Housing Coalition. (2014). *Aligning Federal Low Income Housing Programs with Housing Need.* http://nlihc.org/library/research/alignment.

4. Using state and local funds. Projects that reach extremely low income households rely heavily on state and local revenue sources, especially housing trust funds. NLIHC has identified 254 state level programs that provide some kind of capital or operating subsidy for affordable rental housing and another 66 municipal programs that do so as well.[9] We estimate their combined annual value to be less than $3 billion. It is a mistake to think that state and local governments can make up for reduced federal funds, but their role is essential.

5. Private fundraising. Like state and local governments, philanthropy makes small, but catalytic, contributions. Home Funders is a joint project of several Boston foundations that combined resources to support rental housing for extremely low income families. They have contributed support to more than 1,000 homes in ten years and have just set a goal of supporting another 1,000 homes in the next five years.

6. Establishing preferences or set-asides for LIHTCs by states. Some states give extra points in their LIHTC competitions or provide other favorable treatment for developments that commit to serving some extremely low income households. These preferences do not make the units affordable by themselves, but the preferences attract other resources to a project. A new report by the Technical Assistance Collaborative highlights three state housing finance agencies (IL, PA, and NC) that have programs to create permanent supportive housing in integrated settings for extremely low income people with disabilities, without relying on Section 8 vouchers. Each program is different, but they all used LIHTC and a variety of other state, local, and private sources.[10]

The HOME program administered by HUD and the Affordable Housing Program of the Federal Home Loan Banks are two other sources of capital for affordable rental housing development. HOME is a block grant to states and localities funded through annual appropriations, with $900 million for FY15. The Federal Home Loan Banks are required by statute to set aside 10% of their profits for their Affordable Housing Programs, through which they make grants to support local affordable housing projects. Their combined grants totaled $254 million in 2013. Neither program is required to support rental housing for extremely low income households, but both make important contributions to preserving and expanding the supply of affordable rental housing.

This discussion would be incomplete without describing how the National Housing Trust Fund will be used to address the shortage of affordable rental housing. As committee members know, the National Housing Trust Fund was created in the Housing and Economic Recovery Act (HERA) of 2008. HERA requires Fannie Mae and Freddie Mac to contribute 4.2 basis points of their annual volume of business to support the National Housing Trust Fund and the Capital

[9]National Low Income Housing Coalition. *State and City Funded Affordable Rental Housing Programs*. (Forthcoming).
[10]Technical Assistance Collaborative. (2015). *Creating New Integrated Permanent Supportive Housing Opportunities For ELI Households: A Vision for the Future of the National Housing Trust Fund.*
http://www.tacinc.org/media/51527/Creating%20New%20Integrated%20PSH%20Opportunities%20For%20ELI%20Households.pdf.

Magnet Fund. That funding will begin in 2016. Unlike the traditional affordable housing programs that depend on annual appropriations, funding for the National Housing Trust Fund and the Capital Magnet Fund is on the mandatory side of the budget and is a dedicated source of revenue like the Affordable Housing Program of the Federal Home Loan Banks.

The core purpose of the National Housing Trust Fund is to expand the supply of rental housing that extremely low income households can afford. At least 90% of the funds must be used for rental housing and at least 75% of the rental housing must be affordable for extremely low income households. It is a block grant to states, distributed by a formula based on the shortage in each state of rental housing that extremely low income households can afford. Funds can be used to build, rehabilitate, preserve, and operate rental housing. Up to one-third can be used for operating assistance or to create an operating assistance reserve. States must develop an allocation plan based on priority needs. States will issue Requests for Proposals and make grants or loans to developers with demonstrated capacity to carry out the proposed projects.

The National Housing Trust Fund will serve as an incentive to bring other resources to bear on the development and preservation of rental housing that extremely low income households can afford. Two of its attributes make this possible. First is the deep income targeting. There is no other federal program that provides new money to support rental housing development targeted to ELI households. In order to use National Housing Trust Fund dollars, a developer has to include some units in a project that are affordable for extremely low income households. The second attribute is the National Housing Trust Fund's flexibility. It provides capital grants or loans that can be coupled with LIHTCs and other sources of capital. Funds can be used for a wide range of costs associated with the construction or rehabilitation of units designated for ELI households in multifamily properties. Projects can be designed based on local market conditions, local priorities, and local resources.

As we are meeting just one day after Tax Day, it is appropriate to close by noting that it is possible to end homelessness and the shortage of affordable rental housing in our country without costing the federal government one additional dollar. We simply need to use our existing federal housing programs more efficiently and effectively. The federal mortgage interest deduction is the single largest federal housing program. According to the Joint Committee on Taxation, the mortgage interest deduction will cost $74.8 billion in 2015, and its primary beneficiaries are higher income households.[11]

We propose two modest changes to the mortgage interest deduction that will make the tax treatment of home ownership fairer and more effective, and generate billions of dollars in revenue. First, we would lower the cap on the size of mortgage for which interest can be deducted from $1 million to $500,000. NLIHC analysis of Home Mortgage Disclosure data (HMDA) shows that just 4.5% of all mortgages in the U.S. between 2011 and 2013 were over $500,000. Second, we would convert the deduction to a 15% non-refundable tax credit. This

[11] Joint Committee on Taxation. (2014). *Estimates Of Federal Tax Expenditures For Fiscal Years 2014-2018.* https://www.jct.gov/publications.html?func=startdown&id=4663

would increase the number of homeowners who would get a tax break by 16 million, all with incomes under $100,000 a year. Phased in over five years, these two changes would produce $230 billion in additional revenue.

Representative Keith Ellison's "Common Sense Housing Investment Act" would make these changes and direct the revenue into affordable rental housing for extremely low income households. His bill is supported by over 2,000 organizations and elected officials from every Congressional District. We urge committee support for H.R. 1662.

Thank you and I look forward to your questions.

Written Testimony of:

James M. Evans
Quadel Consulting

"The Future of Housing in America: Increasing Private Sector Participation in Affordable Housing"

**Before the Subcommittee on Housing and Insurance
Of the Committee on Financial Services**

United States House of Representatives

April 16, 2015

Introduction

Chairman Luetkemeyer, Ranking Member Cleaver, and Members of the Committee, thank you for the opportunity to testify on the topic of increasing Private Sector Participation in Affordable Housing. My name is James Evans. Before starting a career in housing, I spent 6 years in the active duty Army, including in theater service during Operations Desert Shield and Desert Storm. For the past 23 years, I have worked in the field of affordable housing and for the past 11 years, I have worked for Quadel Consulting.

Quadel was formed in 1978 and provides consulting, training and direct management of affordable housing programs. Our clients include Executive branch Federal agencies, State housing finance agencies, public housing agencies and authorities, for profit and nonprofit developers of affordable housing, private sector administrators of assisted housing programs and research organizations and universities committed to evaluating and improving the quality and availability of affordable housing in all neighborhoods of our great country.

My testimony today is based upon my experiences and focuses on the national need for more affordable housing as well as ways to increase private sector participation. Not only is private debt and equity critical to preserving affordable housing, it is also important to ensure there are opportunities for private sector business models to support HUD and other public agencies in providing cost effective administration of housing programs. Among the housing policies that ensure private participation are (1) consistent and adequate funding levels for both programs and administration and (2) consistent program requirements that are based on private market principles and foster innovation.

Need

There is a tremendous need for affordable housing in America. In a January 2015 report to the Congress on worst case housing needs, HUD concluded, "Even with rental assistance, 6 of 10 extremely low-income renters and 3 of 10 very low-income renters do not have access to affordable and available housing units. In 2013, there are 1.6 very low-income households with worst case needs for every very low-income household with rental assistance.[1]" Clearly, there is a huge unmet demand for affordable housing in this nation. The profile of those with the unmet housing need varies. Every day veterans are returning home from the war on terror. Some of these warriors are returning home with physical and emotional disabilities and need a safe and affordable home to reconnect with family, heal, obtain employment and return to a normal, healthy civilian life. There are thousands of homeless in every state and congressional district across the country. The baby boomer generation is applying for and requiring the support of affordable housing programs. There are hard working parents with low wages who want their children to live in safe neighborhoods with easy access to jobs, parks, grocery stores and most importantly, good quality public schools. Our nation's affordable housing need is great and can

[1] http://www.huduser.org/portal/publications/affhsg/wc_HsgNeeds15.html

only be met with significant participation by the private sector. The challenge now is to determine the best ways to preserve our existing stock of public and assisted housing while at the same time encouraging more private investment.

Housing Choice Voucher Program

Assistance provided under Section 8 of the U.S. Housing Act has, for many years, accounted for the largest part of the HUD budget. By design, it is a program that relies on private developers, owners and landlords across the country in very different real estate markets in order to be effective. Like the U.S. Army, it is only as good as the volunteers who agree to participate under the terms and conditions that the government offers. Unfortunately, funding and program requirements for Section 8 have not fully kept pace with changes in the market place in both the project-based and the housing choice voucher programs. Housing agencies have been forced to lower payment standards, disapprove owner requests for rent increases and take other administrative actions, which have caused some private players in certain markets to decide to discontinue participation in the program or decide not to accept an otherwise qualified tenant with a housing choice voucher.

Across affordable housing programs, there is inconsistency between the program requirements. For example, the statutory maximum term of a project-based voucher contract is 15 years. However, an owner seeking an FHA-insured loan has a requirement that the units financed by that FHA-insured loan remain affordable for the term of the loan, which may go as long as 40 years. The inability to easily layer affordable housing finance programs with subsidy programs discourages private investment.

Recommendations

- Standardize the terms of loan programs and allow the subsidy programs, particularly project-based vouchers to have contract terms that are the same as the loan program term.
- Allow PHAs to calculate the number of project-based vouchers based upon the number of authorized units, rather than the annual budget authority.
- Authorize PHAs to increase the size of their project-based voucher programs from 20 percent to 35 or 40 percent, allowing greater flexibility to expand and preserve affordable housing opportunities.

Moving to Work Demonstration (MtW)

HUD's Moving to Work demonstration was originally authorized in 1996 and has proven to be a successful tool for HUD and the participating agencies to find new, better and more cost effective ways to deliver public and assisted housing services to the community. The flexibility of the program has encouraged innovation, cost savings, flexibility to address local market conditions and better leverage private sector investments. Despite criticism to the contrary, MtW both protects and benefits residents as it helps housing authorities make programmatic investments where they are needed instead of as dictated by one size fits all policies.

A December 2014 report from Abt Associates highlights more than 300 innovations that have increased cost effectiveness, increased the quality and quantity of affordable housing, increased self-sufficiency, promoted residential stability for targeted households, and expanded the geographic scope of assisted housing. Several of the innovations implemented by MtW agencies have been adopted by HUD and are now national policy. Programmatic efficiencies and improvements are the types of actions that encourage private sector investment in public housing programs. In some cases, the cost savings experienced by an MtW agency have been reinvested into their programs to help maintain the viability of current assets, create new programs to help the most vulnerable and expand or improve existing programs.

Recommendations

- Either expand the MtW demonstration or build current MtW innovations into existing public housing and Section 8 programs.
- Use lessons learned through the MtW demonstration to promote fair housing by expanding private sector housing opportunities and the number of units that are affordable for voucher holders.

Low Income Housing Tax Credits

The Low Income Housing Tax Credit program has been the primary financing tool to create and preserve affordable housing since the 1980's. According to the National Council of State Housing Agencies, in 2013, the demand for low income housing tax credits was nearly three times the supply. In 2012, State Housing Finance Agencies awarded $754,696,682 in low income housing tax credits, resulting in the creation of 55,925 affordable apartment units.[2] This program is popular with developers, advocates and consistently maintains bipartisan support among legislators and the executive branch. The Congress can strengthen and enhance the contributions of private sector participants in affordable housing by continuing to support and expand the use of low income housing tax credits to meet the growing need for more affordable housing.

Rental Assistance Demonstration (RAD)

The Rental Assistance Demonstration, or RAD, is HUD's program to introduce private investment into public housing and has experienced some early successes. One current challenge to the RAD program, a challenge that may slow its progress, is access to the 9 percent low income tax credits. Because some of the nation's public housing stock is in such poor condition, 9 percent low income tax credits are the only financing tool to make a RAD conversion viable. While States have other financing programs that may help reposition the public housing portfolio, many of those programs will only assist the less distressed projects. Agencies cannot address the worst case needs without the more valuable 9 percent tax credit.

Recommendations

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[2] https://www.ncsha.org/resource/housing-credit-utilization-charts

- Create a special allocation of 9 percent low income housing tax credits, in addition to the current allocations, that are specifically for the conversion of public housing units. The repositioning of public housing should not interfere with the production of new affordable units.
- If a housing authority is fortunate enough to competitively win an allocation of tax credits (9 percent or 4 percent), allow that agency to enroll into the RAD program and exempt those units from the RAD cap.
- Allow any project that already has a tax credit award (i.e. current HOPE VI, mixed finance, etc.) to convert the public housing units under the RAD program, again without counting toward the RAD cap.

Because the 9 percent credits are highly competitive and housing authorities are going up against other well qualified and important projects, these recommendations will help guarantee the preservation of the current public housing stock and allow for RAD to move past the demonstration phase, while allowing these projects to close at a more rapid pace without slowing the creation of other affordable housing.

Repositioning of Public Housing
The current formula for managing public housing assets is broken. The combination of tenant rent, operating subsidy and capital funds cannot meet the financial needs of an aging inventory of public housing and RAD may not be the best option for all public housing developments. Section 30 of the Housing Act authorizes PHAs to mortgage or otherwise encumber their public housing real estate and other property to secure financing transactions. This is a solution that does not cost the government any money and allows PHAs to leverage the value of public housing properties through traditional financing programs. This flexibility has not been used often, but is gaining in popularity. This option opens new avenues for private investment into public housing projects, and grants access to the same financing tools that have long been available to the owners of other HUD-assisted properties. While taking advantage of these opportunities, we need to make sure that that the rights of tenants are protected.

Recommendations
- Simplify the processes associated with obtaining HUD approval to subordinate the Declaration of Trust.
- Using lessons learned from MtW, authorize PHAs to have the flexibility to combine federal funding sources to preserve existing housing units.

Performance Based Contract Administration (PBCA)
In the early 1990's Congress made the decision to utilize a private sector model to manage and oversee the administration of Section 8 project-based assistance contracts. There are approximately 1.6 million units associated with these contracts that are privately owned and allow for a rent subsidy, making these units affordable to low- and very low- income renters. Because these units are owned by the private sector and there is debt on all or most of the

properties, it is essential that Congress ensure an adequate and uninterrupted process for payments.

Conclusion

To ensure private participation in the creation and preservation of affordable housing, there needs to be consistent and adequate funding levels for the programs and the administration of the programs. Any program improvements should be designed with the goal of attracting private sector participation and based upon principles that foster innovation. There is a lot of good work is being done around the country to address the affordable housing need, but more must be done. Housing authorities, while highly regulated, are doing the best that they can to manage their programs and maintain public housing assets that are aging and require significant investment. Likewise, the developers and managers of affordable housing are doing what they can with the resources available. Many of the HUD programs were designed to rely on the private sector in order to be successful, like the Section 8 programs. Others, like public housing, increasingly need to rely on private sector, locally driven models as permitted under the Moving to Work demonstration and private debt and equity leveraged through RAD. For more than 37 years, Quadel has been proud to serve in the field of affordable housing. We look forward to working with your Committee on new legislative initiatives designed to enhance the availability and cost effectiveness of these critical governmental expenditures.

BRAD FENNELL TESTIMONY

SUBCOMMITTEE ON HOUSING AND INSURANCE

"The Future of Housing: Increasing Private Sector Participation in Affordable Housing"

APRIL 16, 2015

Good morning Subcommittee Chair Luetkemeyer, Subcommittee Ranking Member Cleaver, and other members of the Subcommittee. My name is Brad Fennell, and I am a Senior Vice President at WC Smith, a real estate development and property management company based in Washington DC. I run the Development Division of WC Smith, currently overseeing over $350 million in development, including luxury apartments, mixed-use centers and affordable housing. I have managed the development and rehabilitation of several thousand units of affordable housing in my 27 years at WC Smith.

Our most recent affordable housing project is Sheridan Station, a mixed-income, HOPE VI development one block from the Anacostia Metro station in southeast Washington DC, less than 3 miles from the US Capitol. Sheridan Station is in Ward 8, which has the highest poverty rate in the city. According to the Census, 35% of households in Ward 8 live in poverty, including approximately half of the children in the Ward. The unemployment rate is 24%, in contrast to the citywide average of 11%. Twenty percent of the adults do not have a high school diploma.

Against this backdrop, WC Smith, in 2007, partnered with the DC Housing Authority (DCHA) to redevelop the 14-acre site, formerly the site of Sheridan Terrace public housing, demolished because of its dilapidated condition. DCHA received a $20 million HOPE VI Grant from HUD for this project

Sheridan Station is being constructed in three phases. The first phase, which consists of 114 units was completed in 2011. Phase 2 is the homeownership portion of the project. It includes 80 homeownership units. The first 60 have been finished and sold. The last twenty are still under construction but we already have a long list of people interested in those units. The third phase, which consists of 133 rental units, will be finished this summer.

There is clearly a demand for this type of housing. The only marketing for both the multifamily building and the homeownership units has been a sign on the development fronting the Suitland Parkway. Yet all of the completed for sale units sold quickly, and we had a list of 1700 people interested in the rental units when the first building opening.

Sheridan Station is not just an affordable development, it is also environmentally friendly. Sheridan Phase I was the first multifamily building in DC to be awarded LEED platinum by the US Green Building Council. The building features a rooftop solar array that produces enough power to cover 60% of the building's common area electricity needs, as well as a rain garden, energy-star appliances and an underground rainwater cistern that collects storm water run-off.

While Sheridan Station replaces affordable housing, it is not recreating the dilapidated housing of the past. It is set apart by high quality finishes, community amenities and environmental features that make the building more comfortable for residents. More significantly, the development contains a true mix of incomes. The combination of rental and home ownership units also attracts a diversity of residents. Incomes at Sheridan Station run from as low as $5,000 a year in the rental units to $230,000 in the homeownership units. The future of affordable housing is in mixed-income communities like Sheridan.

When complete, Sheridan Station will provide a total 327 housing units, most of which are subsidized by federal resources. All 247 of the rental apartments are Low Income Housing Tax Credit (LIHTC) units. They are for households that make up to 60% of Area Median Income (AMI), with the majority between 30-60%. 110 units are further subsidized with Section 8 Annual Contribution Contracts (ACC). Of the rentals, 45 are replacement units for former Sheridan residents and 65 are replacement units for the city's redevelopment of the Barry Farm community. Of the for sale units, 17 have been sold at market rate, and 53 have been sold to households earning up 80% AMI, under a DC housing authority home ownership plan established for Sheridan Station.

The $20 million federal HOPE IV grant has been key to the success of this project. The HOPE VI funding allowed the development to serve over 100 families who live at or below 30% AMI and still be financially stable. The HOPE VI dollars covered 17% of the total development costs of Phase III, so for every federal dollar invested in this development, the developer leveraged $5.65 in other private and local sources. The HOPE VI funding is structured as a loan, so the federal subsidy is repaid at a low interest rate, benefiting the developer with the lower cost of capital while ultimately repaying the government loan.

By leveraging private investment, the Low-Income Housing Tax Credit was critical to providing affordable homes to many more families than the HOPE VI grant could have provided on its own. The affordable apartments that it financed complemented the deeply targeted HUD-funded apartments and the market-rate homes to make Sheridan Station a truly mixed income community. Without the Housing Credits, it would have been extremely difficult to make this type of development financially feasible.

As the success at Sheridan Station shows, the private sector is equipped to provide affordable housing, and our region and many other areas of the country are in critical need of additional units. Continued public investment, whether it is more ACC, more project-based vouchers, more capital funds, or more HOPE VI-type programs, will help to fill the gap between the market costs and subsidized rent, and will encourage the developers like us to create more housing.

The project is not without challenges. One of the most significant is the strict 60% AMI limit on Housing Credit units. This limits income diversity and community stability, and forced us to turn away some potential renters. A better approach would be to allow a blend incomes, with a cap of 80% AMI as long as the average is below 60%. A blended approach works against concentrated poverty. Affordable housing policy shouldn't just focus on the number of units built, but should look at the question of "how do we uplift the poor by integrating them into more income-diverse, stable communities?" Families do better when they lived in mixed-income communities with greater access to resources.

The floating tax credit rate is a challenge for all Housing Credit projects. This rate is published monthly by the IRS, often changes from month to month, and determines the amount of cash equity from our investor. We can elect to set the rate when we close our financing, or let it float and then fix it when we place the building in service. One consequence of the recent low-interest rate market is that this rate has been drifting down to historic lows (both the 70% present-value credit and the 30% present value credit), starving newer projects of equity financing. Since the development timeline to close financing can run from several months to over a year, the project's equity amount is often not known until the month of closing, which makes it difficult to plan a projects construction scope and amenities. A way to solve this problem would be to set the LIHTC rates at constant rates of 4% and 9%, rather than having them float monthly. This would allow the private sector to have more predictability in financing, and will certainly make more projects workable. I believe Congress is already considering such proposals.

The development community is wary of projects with uncertainty and delays, both of which add significantly to the cost of a project. Streamlining the process, especially for closing and financing and for public agency approvals, will generate greater private sector interest in affordable housing. This is especially true for private-local-federal projects, which have additional layers of approvals required. Recognizing the value of minimum credit rates, Congress has enacted a minimum 9 percent rate in the past, but it is now expired. As a result, developers have had to use the floating rate since the end of 2013. Representatives Pat Tiberi and Richard Neal have introduced legislation to create minimum 9 and 4 percent Housing Credit rates, which I would encourage members of this committee to support.

An additional limiting factor, though not for this development specifically, is the scarcity of Housing Credit resources. While we were able to secure Housing Credits for Sheridan Station, there are many developments each year that cannot get the credits they need. With a greater Housing Credit allocation, we could finance more transformative developments like Sheridan Station.

Another challenge is that the Section 8 ACC rent subsidy from HUD/DCHA doesn't take apartment size into account. The current monthly subsidy is a flat $425, for a studio or a three-bedroom. In the area around Sheridan Station, there are a number of families with children who need a larger apartment, but the subsidy limit creates a disincentive for the developer. The Sheridan Station two bedroom units currently rent for $1295, so the subsidy covers less than half the cost of rent.

Lastly, a portion of this project was covered by the federal Davis-Bacon wage scale and classified as commercial/heavy highway, despite being entirely residential mid-rise. This added a 5% premium equaling $1 million to the $20 million construction costs associated with that phase. Affordable residential projects with wood frame construction (five stories and below) should be classified as residential under the Davis-Bacon wage scale (instead of the current 4 story limitation). This will stretch the overall effectiveness of any public subsidies.

Members of Congress, staff and others here today, thank you for this opportunity to testify at this hearing. We at WC Smith are very proud of the accomplishments at Sheridan Station and hope that we have been able to share some helpful information today.

Sheridan Station Facts

Sheridan Station is a mixed-income, HOPE VI development that replaces a former public housing complex one block from the Anacostia Metro station. The project has a mix of housing types and has both for sale (80 units) and rental units (247) totaling 327 units.

Phase/unit break down:

- Phase 1 - rental - 114 units - complete/occupied (1 current vacant)
- Phase 2 - homeownership -80 units, 60 units complete/sold, 20 units under construction
- Phase 3 - rental - 133 units - 40 units occupied, remaining units under construction

ACC - rental

- Phase 1 - 45 units
- Phase 3 - 65 units
- 110 total ACC units

Financing

- ACC units - average ACC Rent, about $425/unit/month, barely covers operating expenses, hence why HOPE VI/subsidy is critical.

Sustainability

- First multifamily building in DC to be awarded LEED platinum by the US Green Building Council
- 102 kw solar panel system (with 426 panels) that covers 60% of common electric needs. It was predicted to 30%. It will be paid off after approximately 18 months of operations.
- Rain garden, vegetative green roof and underground rainwater cistern that collects storm water run-off.
- Energy star lighting and appliances, low flow plumbing fixtures, high efficiency HVAC systems and windows, and low VOC paint.
- Transit-oriented development focused on the Anacostia Metro Station on the green line.

Health and Community

- A community room, used both by residents and civic groups [check]
- 5,500 square foot health and wellness center that provides health care services to residents
- Fitness center as well as nutrition and fitness classes on site.
- Laminate flooring to keep living space healthy, as 78% children in Ward 8 have allergies or asthma.

Employment

- At Sheridan, 50 District residents were hired in the Phase I construction n Phase 1, and 25 District residents were hired for Phase 3. 65% of the District hires are residents of Wards 7&8.

Market Demand

Before opening the first multifamily building in 2011, we had a list of 1700 interested applicants – all from merely a sign on building fronting Suitland Parkway.

Homeownership Demographics (60 units)

Average Income	$76,906.08
Average Sales Price	$302,338.33
Average Price per sf	$180.73
% Market Rate	28.33%
% Income Restricted	71.67%
Average Age	35
% Male	48.33%
% Female	48.33%
% Male and Female	3.33%
% Single	80.00%
% Married	16.67%
% Divorced	1.67%
% Widow(er)	1.67%
African American	60.00%
Caucasian	23.33%
Hispanic	13.33%
Middle Eastern	1.67%
Asian	1.67%

% DC Residents	53.33%
% Maryland Residents	28.33%
% Virginia Residents	13.33%
% Outside DMV	5.00%

Suggestions for Improvement

- Set LIHTC rates at 4% and 9%
- Streamline agency approval and financing processes
- Change the Davis-Bacon wage scale to classify wood frame residential building in the residential wage scale category.

Good afternoon Chairperson Luetkemeyer , Ranking Member Cleaver, and other members of the Housing and Insurance Subcommittee, I am Adrianne Todman, Executive Director of the District of Columbia Housing Authority. I am pleased to be here today to provide information and insight on affordable housing innovations undertaken here in the District of Columbia over the past several years and thoughts on ways to facilitate the expansion and preservation of affordable housing.

My expertise in this area builds on almost 25 years of experience at both the federal and local levels of government. I began my professional career here in this building as a legislative assistant and after four years, moved over to a policy position at the U.S. Department of Housing and Urban Development where I had the great privilege of helping to shape the HOPE VI program during its early years, and working and learning from some of this country's greatest minds on housing and community development.

I now have the responsibility of implementing many of the programs and rules that I worked on at the federal level. And in doing so, I can recognize that the best of intentions are too often unnecessarily bogged down by burdensome processes; limiting our ability to shape programs with locally driven-solutions. DCHA is very fortunate to be a Moving to Work agency which allows us to effectively shape our response to local issues.

A housing authority cannot fulfill its mission alone. Our success requires the support of this Congress, HUD, our local leadership, our clients and the private sector. Without our private sector partners we would be unable to achieve our core mission to nurture healthy neighborhoods and unlock opportunities for our clients. Much as we need the support of this Congress, HUD, and other federal agencies, we need outcome-based partnerships with the private, for- and non-profit sector to accomplish our work. Allow me to provide some examples.

My housing authority houses more than 50,000 low-income families here in the nation's capital; more than 20,000 live in traditional public housing communities and we provide more than 30,000 with a rental assistance voucher to live in private rental units.

For those families who live in private rental units, we rely on our local landlords to provide affordable housing. My agency works with more than 3,000 private landlords and we continue to market our program to new landlords. Without the active participation of these private partners our voucher clients would have a very difficult, if not impossible, time staying here in the District of Columbia.

Additionally, DCHA works very closely with many private and non-profit developers to create affordable units for low-income families in development projects where, but for our public-private partnership, these families could not afford to live in the District. Through project-based partnerships we have created almost 2,000 units throughout the District and in neighborhoods that have become less affordable to even moderate-income families. While the rental units are privately owned, DCHA has a contract with each owner guaranteeing affordability. These partnerships have helped the housing authority expand the number of physical units that are affordable to low-income families.

Our traditional public housing developments represent the backbone of affordable housing in DC. DCHA owns, manages or subsidizes more than 8,300 units of public housing for low to moderate income households. These rental units provide housing to many of the city's lowest income families. This housing stock is a precious resource locally...and nationally. Unfortunately, the program remains severely underfunded in both the federal operating fund and the capital fund. My colleagues and I make very difficult decisions each fiscal year that reflects this underfunding. Whether it is the reduction of time that it takes to make a unit available for another needy family or delaying the repair of a roof subjecting a family to constant leaks or ensuring that our units are comfortable for our seniors during harsh winters or blistering summers.

As executive directors, we certainly want funding levels to represent 100% of what is promised to us via our annual contributions contract and we certainly would like to receive capital funds to deal with the almost $30 billion in capital backlogs recorded by HUD, but we cannot wait for the priorities of our funders to change. This is why we must explore market-driven solutions to preserving these units.

The HOPE VI program was one means of this public/private partnership created in the 1990s....and DCHA is one of the most successful grantees of this program. Today in addition to the Choice program, the successor program to HOPE VI, HUD has created a new tool, the Rental Assistance Demonstration program (RAD). This program strives to preserve public housing by changing the funding structure. Instead of a public housing contract, a housing authority would have a project- based voucher contract on the units. This new contract structure would allow us to borrow against our assets to raise funds to modernize the property. I support the use of RAD to modernize our units. We have received preliminary approval for 900 units, and I am working with my Board, staff and clients to submit additional RAD requests to HUD for a number of our sites.

Of the 8,300 public housing units DCHA subsidizes, almost 1,800 are part of a redeveloped community or were recently rehabbed, and are not in immediate need of modernization. The remaining units, just over 6,500, are located in our family and senior/disabled conventional sites. We have analyzed our need and we have determined that DCHA would need more than $1 billion in additional funding to bring our entire stock up to a 20 year viability, and to complete our current redevelopment pipeline of low income units.

There is no cookie cutter plan that can be applied to all sites. Rather, the approach for any site needs to take into consideration the local and federal funding available, the debt and equity that the site can bare, and the ability of the site to contribute to wider community needs such as more affordable workforce housing, market rate housing, homeownership options, and commercial amenities. And, very importantly, we need the voice and input of the clients and core stakeholders. DCHA has been working aggressively on its redevelopment and modernization pipeline, but with a process that is sensitive to resident concerns.

This work has been a catalyst for further community development across the city. For instance, in the late 1990s the vacant Ellen Wilson, not too far from here became the Townhomes on Capitol Hill and spurred the now vibrant 8th Street SE corridor which is home now to the country's best restaurant.

The revitalization of the old Capper/Carrollsburg site was the spark that energized much of the work along the M St. corridor near the Navy Yard...today there is a Harris Teeter, restaurants, and a baseball stadium.

And once the Henson Ridge community was being rebuilt, the plans for the first full service grocery store and the still only sit down establishment in Ward 8, in Southeast DC, were finalized and built.

These sites represent some of the 2600 affordable units we have developed with our private sector partners over the years. And our work is not done. DCHA has 13 additional communities and 12 buildings that serve seniors and persons with disabilities that are at various degrees of capital need. And whether our tool is Choice, RAD, tax credits or bonds, we need our private partners to continue to join us at the table.

Our work has been vital to both economic development, but also, and most importantly, the preservation of low-income affordable units in each of the neighborhoods I mentioned and several more from Capitol Hill to Columbia Heights.

Over the years we have done this work always with sensitivity to the families impacted. This means that we had a robust process prior to redevelopment by meeting with the residents, community, and other stakeholders to get input, feedback, and to educate and inform. We have also created protections in our deals to protect the public asset into the future. We do this in several ways, including:

1. Long term (99 year) ground lease of land rather than fee simple transfer. At the end of the ground lease, land reverts back to DCHA.

2. HUD Declaration of Covenant for public housing units requires units are rented to public housing income eligible tenants for 40 years plus a ten year tail after the last date the owner receives operating subsidy.

3. DCHA negotiates first right to purchase option to acquire the property from the tax credit investor at the end of the 15 year tax credit compliance period.

Finally, our work with the private and non-profit sectors includes our work to help families achieve their full potential and improve their economic situation and future outlook. We seek to demystify the road to self-sufficiency by providing access to job training, jobs, youth development, and college education.

Some examples include:

- DCHA's Section 3 Workforce initiative provides our residents access to jobs through our contracts and vendors.
- DCHA assisted 7 families in our voucher program purchase a home last year, 10 with purchase contracts and 79 who are also working towards this goal.
- Last year, DCHA provided $25,000 in college scholarships to youth, and organized college tours.

- The Achieving Your Best Life program is designed to help public housing residents achieve economic independence. We have two incubator sites, Elvans Road (Ward 8) and units within the Columbia Apartments building (Ward 1). Last year, our first AYBL participant purchased her home and I expect additional outcomes from this program.
- DCHA works closely with our colleagues at the D.C. Promise Neighborhood Initiative in the Kenilworth/Parkside community. The youth who live in Kenilworth Courts and the Kenilworth/Parkside RMC site, among others, will benefit from this data-driven federal program to improve life outcomes.

I would like to provide some recommendations on ways to help my colleagues and me.

Approval Process: The existing process to receive approvals for our mixed finance deals is complex and lengthy. It typically takes several months to get approvals. This could be a matter of not enough staff at HUD, lengthy internal discussions inside the building on routine matters, or now more than 20 years of deals, unnecessary processes.

Repositioning Process: Over the past couple years, the approval process for demolition/disposition has become ever more curious. Though the statute states that HUD *shall* approve a demo/dispo application if the PHA certifies to certain items and provides only narrow circumstances to disapprove an application, the current process places additional burdens on PHAs to justify their choices beyond what the statute requires, and leaves PHAs with fewer tools to improve their affordable housing stock. Additionally, HUD has assumed a much more restrictive stand on the characterization of proceeds resulting from the sale or lease of public housing assets (i.e,. ground leases, sale of land or buildings). Creating limits, for instance, on being able to use these funds for purposes of meeting guarantee requirements of lenders and investors and impedes an HA's ability to gain maximum leverage in the creation of affordable housing serving public housing eligible households.

Underutilized tools: *Section 30*, established in "QHWRA" allowed for the first time for debt to be placed on ACC units. Nonetheless, few if any housing authorities are allowed to use public housing operating subsidy to be used to pay debt service. HUD should consider using guidelines relating to whether a project is financially feasible by considering all funds used in structuring debt and not restrict (or disallow) the use of public housing operating subsidy. This can limit the effectiveness of leveraging debt financing to create or rehabilitate ACC units. *The Capital Fund Financing Program* is only viable with adequate public housing appropriations. Housing authorities are finding that they can no longer maintain the debt service coverage that HUD required, putting re-financings and RAD deals at risk.

Local Solutions to Local Problems: Finally, and the most important point overall, is the flexibility for housing authorities to respond nimbly and responsibility to current local conditions. DCHA is very fortunate to be a Moving to Work agency, and this has provided us with the ability to shape our local programs to respond to local needs. We have used a Local Blended Subsidy, which couples our public housing and voucher funding, to both rehab existing public housing and build new ones. We have created the first very low-income assisted living facility here in D.C. by using our MTW regulatory flexibility to blend the public housing rules with the assisted living rules. We have used MTW to make it easier for our families to find affordable housing by increasing the voucher payment standard to 130%. Previously our payment standards were affordable in 14 of the 53 submarkets here in D.C.; with this change we can access 13 additional submarkets. This rule will also apply to our project-based program and will allow us to work with developers in neighborhoods that have become too expensive for low and moderate income families.

This concludes my testimony. Our overall commitment to improving conditions for low-income families who live in the District of Columbia is complex, but rewarding. As someone who traveled these halls, the halls of HUD, and city hall, it is very clear to me that with the appropriate level of public investment, a business environment that welcomes private sector involvement and the ability to apply local solutions to local problems, housing authorities will maximize our ability to preserve and create low-income affordable housing for families throughout the country. Thank you for inviting me to testify.

CLPHA

Strengthening Neighborhoods.
Improving Lives.

Council of Large Public Housing Authorities
455 Massachusetts Avenue, NW, Suite 425
Washington, D.C. 20001-2621
Executive Director: Sunia Zaterman
phone: 202.638.1300 | fax: 202.638.2364
web: www.clpha.org

Statement for the Record
Submitted by
Sunia Zaterman, Executive Director
Council of Large Public Housing Authorities

for the Hearing entitled
"The Future of Housing in America:
Increasing Private Sector Participation in Affordable Housing"

United States House of Representatives
Subcommittee on Housing and Insurance
Committee on Financial Services

April 16, 2015

The Council of Large Public Housing Authorities (CLPHA) appreciates the opportunity to submit this statement for the record for the hearing entitled "The Future of Housing in America: Increasing Private Sector Participation in Affordable Housing."

CLPHA represents public housing authorities from most major metropolitan areas in the country. On any given day, CLPHA members are collectively serving more than one million households. Together, they manage almost half of the nation's multi-billion dollar public housing stock; administer over a quarter of the Section 8 rental assistance voucher program, and operate a wide array of other housing programs. Our members are in the vanguard of housing providers and community developers.

We thank the committee for holding this hearing as we are strong proponents of increasing private sector investment in affordable housing, evidenced by our strong support for the HOPE VI program, Choice Neighborhoods Initiative (CNI), Rental Assistance Demonstration (RAD), Moving to Work (MTW), Low Income Housing Tax Credit (LIHTC), Housing Trust Fund (HTF) and other programs that allow and encourage the use of federal resources to leverage private sector investment. It is important to note there has not been any significant public housing redevelopment in the past two decades that has not used LIHTC. The private market has not made significant investments in the redevelopment of public housing without federal resources. **Development of deeply affordable housing is simply not possible without public investment.** However, there are a number of ways that federal regulations and policies that are obstacles to private investment can be modified to further incentivize private sector participation.

As the committee well knows, public housing authorities have suffered from decades of underinvestment by the federal government. This has resulted in a massive backlog, estimated at $26 billion by a recent study, of deferred maintenance in aging properties, some built more than 40 or 50 years ago. The lack of funding has led to an annual loss, on average, of 10,000 units of rental housing because they are in such disrepair they can no longer safely house people.

The goal of RAD is to recapitalize public housing developments with a combination of public and private sector investment through a streamlined regulatory structure that is still evolving. Unfortunately, with the exception of a limited number of CNI grants, HUD has channeled all public housing redevelopment projects through RAD, essentially shutting down all non-RAD applications for demolition/disposition through the Special Applications Center. Though the statute states that HUD *shall* approve a demo/dispo application if the public housing authority (PHA) makes certain certifications, and provides only narrow circumstances for HUD to disapprove an application, HUD has taken steps that are inconsistent with Congressional intent, placing additional burdens on PHAs to justify their choices beyond what the statute requires, and leaving PHAs with fewer tools to improve their affordable housing stock.

HUD has imposed a narrow and restrictive standard on determinations of obsolescence, limiting a PHA's "modification" budget to very narrow categories over short periods of time to determine if there is a "reasonable" and "cost effective" means of "returning" the project to "useful life." These restrictions have the effect of essentially prohibiting demolition of otherwise hopelessly obsolete projects that are unsuitable for occupancy and which cannot be made suitable by current standards within these unreasonable guidelines.

Without the ability to demolish, or convey a property to an ownership structure that permits LIHTC investment , PHAs must direct scarce capital dollars to making marginal improvements to buildings that should really come down or that would require prohibitively expensive and unwise rehabilitation.

Just as troubling with regard to disposition, HUD has concluded that irrespective of the magnitude of the local funding shortfall or the scope of the repair needs, there are, in every case and in every location in the country, adequate "alternative resources" available to offset any shortfall in public housing funding. This defies both experience and logic. It also means that PHAs cannot access the "alternative resources" for public housing redevelopment that *are* available through the LIHTC, as they cannot convey the public housing property to the tax credit entity—which allows the tax credit investors to invest their equity—without disposing of the property.

Further, HUD has said that if a disposition application did not meet the overly restrictive obsolescence standard, then the PHA would be required to replace public housing units on a one-for-one basis, a policy Congress repealed in 1998.

At the same time that HUD is increasing the difficulty of obtaining demolition and disposition approval, in effect forcing PHAs to spend scarce resources on maintaining obsolete properties, it is promulgating fair housing rules that require housing authorities to assess the role project siting and occupancy play in sustaining , racially and ethnically concentrated areas of poverty. It is unclear why PHAs should be forced to maintain properties that HUD believes to be significant contributors to the problems of segregation and racially and ethnically concentrated areas of poverty.

Increasing restrictions on the use of project-based vouchers also make it harder to work with private developers to include subsidized units in new development or redevelopment projects. For example, HUD's recent Final Rule on the Project-Based Voucher program explicitly prohibits construction or rehabilitation activity between the submission of a proposal for project-based vouchers (PBVs) and the execution of the Agreement to Enter into Housing Assistance Payments Contract (AHAP). Additionally, the final rule prohibits executing an AHAP after the commencement of construction or rehabilitation. This means that no work can start on a project-based voucher project until the contract is in place and subsidy layering review has been completed. This can increase costs for partners in the project, and the potential for significant delays before development even begins could discourage private sector partners from participating.

A recent independent study by Abt Associates entitled "Innovation in the Moving to Work Demonstration" noted that "(g)iven the sizable backlog of capital needs in public housing – the most recent study placed the national backlog at $26 billion as of 2010 – it is not surprising that many MTW agencies have sought to use MTW funds to invest in the modernization of older public housing and the revitalization of distressed public housing developments in need of a more comprehensive overhaul. MTW agencies report a wide range of activities that fall within this category, including the dedication of more funds to public housing modernization activities than might have been possible under standard HUD policies, revitalization efforts somewhat similar to those conducted under HOPE VI (though without the benefit of large HOPE VI grants), and policy changes designed to streamline and reduce the costs of day-to-day modernization activities."

According to Abt, "(a)mong other roles, MTW authority has allowed AHA (Atlanta Housing Authority) to streamline its procedures to keep pace with its private sector partners for whom lengthy procedures would raise costs and complicate their ability to participate in these redevelopment activities. For example, instead of the large binder of documents required by most PHAs as a rental term sheet to move forward with a development project, AHA does a 'Pre-Closing Memo,' which allows the agency to present information in a streamlined fashion. Also, AHA has a grant manager who completes a streamlined review 30 days before closing, instead of an investment committee that involves a three to six month review process. AHA has also streamlined the "demo/dispo" procedures needed when changing the status of a public housing development.

"King County Housing Authority (KCHA) has used its MTW authority in multiple ways to improve the quality of its public housing. KCHA has used single fund flexibility to transfer funds from its voucher program, which is experiencing lower than projected per-unit costs, to its public housing program to offset the effects of HUD's proration of public housing funding. Single-fund flexibility has allowed KCHA to be more creative on the development side, leading to increased production of affordable housing. For example, at one property, KCHA took the 10-year replacement factor funding from the demolition of public housing as part of HOPE VI and paired it with capital and operating funding and used the combined funds as security for a bond issue. KCHA staff say that it is possible they could have gotten HUD approval for this activity through the traditional regulatory process, but it would have been very difficult. This innovative financing allowed them to essentially do a HOPE VI-style redevelopment without a HOPE VI grant."

CLPHA believes that it is critically important for Congress to clarify its intent to remove the barriers HUD has erected to greater private investment in affordable housing. Furthermore, a substantial expansion of MTW would allow PHAs to develop local strategies to incentivize private investment in affordable housing. CLPHA members stand willing to work with Congress to address these issues.

Thank you for the opportunity to submit our views for the record, and we ask that you give them your full consideration.

**STATEMENT OF THE HONORABLE PATRICK J. TIBERI
TO THE COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING AND INSURANCE
HEARING ON
THE FUTURE OF HOUSING IN AMERICA:
INCREASING PRIVATE SECTOR PARTICIPATION IN AFFORDABLE HOUSING
APRIL 16, 2015**

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to submit this statement to the Subcommittee in connection with your hearing on the Future of Housing in America: Increasing Private Sector Participation in Affordable Housing. I commend the Chairman and Ranking Member for holding this hearing and reviewing this very important and timely topic.

I would like to raise awareness of a critically important program that, although not within the jurisdiction of the Committee on Financial Services, is very often used to complement and strengthen a number of the affordable rental housing programs over which this Committee and Subcommittee does have jurisdiction. That program is the Low-Income Housing Tax Credit ("Housing Credit"), which is contained in Section 42 of the Internal Revenue Code of 1986 and, as you know, is under the jurisdiction of the Committee on Ways and Means, on which I am honored to serve. The Housing Credit embodies the concept that this Subcommittee is exploring today—it serves to increase private sector participation in affordable housing. Indeed, since its enactment as part of the Tax Reform Act of 1986, the Housing Credit has been the key financial tool utilized in virtually all affordable rental housing development and preservation. It is very often used in conjunction with the programs that I understand the Subcommittee is focused on today—properties which have Section 8 assistance and public housing, particularly public housing being developed under the new Rental Assistance Demonstration program. The Housing Credit has been tremendously successful precisely because of the private participation and the public/private partnerships that are at its heart.

<u>Background the Housing Tax Credit</u>

Before discussing the way in which private participation in the Housing Credit works, I would like to provide a brief background on the operation of the Housing Credit. This is a program that produces and preserves affordable rental housing—both newly constructed and existing housing which is substantially renovated—for families, seniors, veterans, the homeless, and persons with special needs, all of whom meet certain income limits and pay restricted affordable rents. The property must be maintained as affordable housing for at least 30 years, although many states require substantially longer restrictions. Although the Housing Credit is a federal income tax credit, the primary responsibility for the allocation of credits and the oversight of the properties receiving these credits is vested with each state credit allocating agency, generally the state's housing finance agency. I personally became keenly aware of the program in the early 1990s as a state legislator because of the Ohio Housing Finance Agency, who runs the program extremely efficiently and successfully in my state.

Each state is authorized to allocate federal Housing Credits, which are distributed to the states via a population-based formula (with a minimum allocation for smaller states), pursuant to a "qualified allocation plan" that the state adopts under broad federal guidelines and which is developed with public input. This decision making, given to the states under the tax code, allows each state to determine the best use of this federal support. Developers in each state compete for this resource, and most states report that the demand for such credits outstrips supply by two or three times.

Allocation decisions are transparent and subject to public scrutiny. Once awarded, developers seek investors, who are now comprised almost entirely of corporations, to invest either directly or through syndicated funds. Such investors make capital contributions, which help fund the project's development costs, in exchange for an ownership interest in the property. That ownership interest allows the investor as a taxpayer the right to be allocated the Housing Credits which are generated by the rental property in which they are investing their capital. This capital allows property owners to reduce the amount of debt they must incur to pay for project development costs. The reduced debt service allows owners to lower rents to the level permitted under the Housing Credit and to lease units to low-income residents whose incomes qualify.

Private Sector Participation Produces Successful Housing

Before any Housing Credits are claimed by investors, the property must be fully developed or, in the case of an existing property, it must be substantially rehabilitated and it must be occupied by income-qualified residents who pay restricted rents. In this way, the investors have "skin in the game" and the development risks are borne entirely by the private sector participants and not the federal government or U.S. taxpayers. Significant recapture penalties apply for fifteen years in the event of non-compliance with the income, rent, habitability or other program rules although the credit itself is claimed over a ten year credit period. States are required to monitor compliance throughout the fifteen year compliance period.

Investors, which are, for the most part, financial institutions, bring tremendous business discipline to the underwriting and ongoing oversight of these properties. Quite simply, investors want two things: 1) the benefit of the bargain they are making—they invest significant capital and they expect to receive federal income tax credits with a modest return on their investment, and 2) they do not want to invest in failed projects or ones that are not maintained to proper standards. To accomplish these goals and to protect their investments, investors conduct thorough underwriting and due diligence at the outset and maintain vigorous asset management throughout their ownership, which is typically at least 16-18 years after acquiring an interest in the property. Their ongoing oversight complements the statutorily required monitoring conducted by state credit allocating agencies.

The results have exceeded Congressional expectations when the Credit was first enacted. Over its lifetime, financing from the Housing Credit has constructed or substantially rehabilitated over 2.7 million affordable rental homes for low-income residents with a foreclosure rate of less than 0.62 percent over its nearly 30-year history, far less than market rate rental properties and other real estate assets, according to a recent report issued by the national accounting firm CohnReznick LLP. Housing Credit compliance rates have been very high. The Joint Center for Housing Studies at Harvard University has termed the Housing Credit the most successful federal rental housing program in the nation's history. Because it is the most important capital resource for affordable rental housing and has worked in conjunction with many of the affordable housing programs authorized by the Financial Services Committee, it has served to improve the performance of those programs.

The private sector financial markets for Housing Credits have been strong during almost all of the program's life and have rebounded substantially from the dislocation that occurred when two of the industry's biggest investors, comprising about 40 percent of the market, Fannie Mae and Freddie Mac, suddenly left the market almost seven years ago. The Housing Credit now raises more than $10 billion in private investment annually. This amount of capital that is contributed in exchange for such credits, which is driven by market forces generally, has also greatly contributed to the efficiency of the program.

Conclusion

The Housing Credit has enjoyed wide bipartisan support since its enactment in Congress and among successive presidents. I am proud to have taken a leadership role in supporting this program in the House of Representatives. I am also pleased to have been joined by my colleague Congressman Richard Neal from Massachusetts in introducing H.R. 1142, which would make permanent the rates which are a part of the formula that determines the amount of private investment available for each property, and by 48 of my colleagues on both sides of the aisle, including seven Members of the Financial Services Committee. I would urge my colleagues to visit a Housing Credit development in your district. My experience has been that seeing is believing; this housing has transformed the lives of its residents and has revitalized communities all over my district and I am confident you will find the same results in your districts as well.

I would urge the Subcommittee to take the lessons learned from this highly successful program in determining how to best increase private participation in the affordable housing programs under your jurisdiction.

Once again, thank you for this opportunity to present my views. I would be happy to answer any questions that you may have.

CSH

Statement for the Record
CSH
House Financial Services Committee, Subcommittee on Housing and Insurance
"The Future of Housing in America: Increasing Private Sector Participation in Affordable Housing"
April 16, 2015

Thank you, Chairman Luetkemeyer and Ranking Member Cleaver, for hosting this important hearing on the Future of Housing in America. Affordable housing is the platform that helps low-income families with children, individuals with disabling conditions, seniors and at-risk young adults succeed and thrive. While the Department of Housing and Urban Development's (HUD) programs play a critical role in creating affordable rental housing for extremely low-income households and homeless populations, it is typically one piece of many that make the development and preservation of affordable units possible.

CSH is a national nonprofit organization that helps communities develop supportive housing and reorient systems to improve resource allocation to create and sustain evidenced-based solutions that assist extremely low-income households achieve stability through housing and services. Through CSH's technical assistance and training and our Community Development Financial Institution (CDFI) has helped communities create and develop supportive housing for populations with substance use addiction, mental health illness, homeless veterans, families involved with child welfare, individuals exiting the criminal justice system and homeless young adults. Supportive housing is affordable housing combined with stabilizing services to help families and individuals address their disabling conditions while living in safe apartments.

Developing Affordable Housing for Extremely Low-Income Households

Affordable rental housing is typically defined as rental housing where a household is paying no more than 30% of their income towards rent. Unfortunately, there are over 11 million low-income renter households across the country that are paying more than half of their monthly income towards rent, making it difficult to pay for other expenses, such as food, medical care or child care.[1] Over the past decade, the number of households that receive federal rental assistance has steadily declined, while the number of households living in poverty is growing.[2] Rental housing subsidies often make the difference between living in safe, stable housing and falling into homelessness. With rental vacancies declining, rents rising and incomes remaining flat for low-income households, there has never been such a need for increased investment in affordable housing than now.

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[1] *The State of the Nation's Housing 2014,* Joint Center for Housing Studies, http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/sonhr14-color-ch1.pdf
[2] Doug Rice, *Obama Administration Restores Housing Vouchers*, Center on Budget and Policy Priorities (March 20115).

Rental subsidy programs are used to support the development of housing units for low and moderate income households. They are used as operating assistance to leverage private financing. Used in conjunction with the Low-Income Housing Tax Credit (LIHTC) program, the rent subsidy makes units affordable for extremely low-income or homeless households. Further, the rental subsidy helps ensure that properties serving these vulnerable populations remain financially viable. Certain programs, like the Section 811Persons with Disabilities Project-Rental Assistance program was specifically designed to work with the Low Income Housing Tax Credit-where the HUD project-rental assistance provides operating assistance and the LIHTC provides the capital dollars to create new integrated and accessible apartments for persons with disabilities. Programs like Section 811, along with the Housing Choice Voucher program and Project-Based Section 8 are one of the key components to accessing private financing in affordable housing.

Private Investment in Affordable Housing

The largest capital program for the development of affordable rental housing in existence is the Low Income Housing Tax Credit (LIHTC) program. Since the Housing Credit was established as part of the Tax Reform Act of 1986, it has financed virtually all affordable rental housing in the U.S., creating or preserving over 2.7 million affordable homes by leveraging over $100 billion in private capital. Private sector investors provide upfront equity capital into a property in exchange for a credit against their tax liability in future years.

Among the program's signature strengths is its administration by the housing credit agencies under policies developed in their Qualified Allocation Plan (QAP). The QAP is a statutorily mandated plan adopted by each housing credit agency that establishes the criteria and preferences for allocating housing credits during the year. Federal regulations require QAPs to give preference to developments serving the lowest income tenants, with the longest periods of affordability, and located in qualified census tracts that contribute to a concerted community revitalization plan. Agencies have authority to establish other QAP selection criteria including development location, housing needs of a local community, development and sponsor characteristics, tenant populations with special housing needs, tenant populations with children and public housing waiting lists. Housing credit agencies can promote policy objectives in a variety of ways using the QAP. The most common methods are through threshold requirements, set-asides and scoring incentives.

Nearly all allocating agencies have some type of scoring incentive to create supportive housing for vulnerable populations, including homeless populations and persons with disabilities. Without the prioritization made by agencies to allocate LIHTC to developments that are serving these populations, creating new supportive housing would be extremely difficult. Most of the projects that CSH lends to includes some type of operating subsidy (either from the state or HUD) and have an allocation of tax-credits.

As noted above, CSH is a Community Development Financial Institution (CDFI) and provides loans to housing developers that are creating supportive housing. Through our Supportive Housing Solutions Fund, the New Markets Tax Credit (NMTC) program and our other loan products, we are able to bring together housing developers and service providers to create supportive housing in local communities.

Recently, CSH provided a loan to Dantes Partners in Washington, D.C. for the Girard Street project that will serve low-income and chronically homeless seniors. The project has a $9.8 million LIHTC investment from Wells Fargo and also has operating assistance provided through a local rental subsidy. Miriam's Kitchen will provide on-site services to residents. This project represents one of many that CSH supports through our own loan products, but would not be a reality if it wasn't for ongoing operating assistance and equity investment in the LIHTC supported by the private sector.

Need for Increased Investment in Affordable Housing Development Tools

As noted above, the need for affordable rental housing in the country is great. Affordable rental housing has not been created without a strong public-private partnership and should continue to do so. As your committee and other committees explore ways to improve the safety net for extremely low-income families and homeless populations, please consider the following recommendations:

- **Strengthening and Improving the Low Income Housing Tax Credit:** Recognizing the critical role that the LIHTC program plays in affordable unit production, Congress should pass H.R. 1142, a bi-partisan bill that would permanently set minimum Housing Credit rates at 9 percent for new construction and rehabilitation and 4 percent for acquisition. Further, Congress should expand the LIHTC to help communities meet the unmet housing needs of homeless and vulnerable households.
- **Modify the Project-Based Voucher Program to Support Increased Development:** A critical tool for development and preservation are project-based vouchers. A PHA is able to provide long-term operating assistance to a housing development that will support units targeting extremely low-income households. Small changes to this program will make it administratively more efficient for PHAs to use PBVs and also help communities create more units for high-need households.
- **Supporting the National Housing Trust Fund:** Created in the Housing and Economic Recovery Act of 2008, the National Housing Trust Fund (NHTF) will provide additional resources to states and communities to meet their affordable housing goals. The structure of the NHTF will ensure that 75% of funds are targeting extremely low-income households and can be used to develop, operate or preserve affordable housing. Further, NHTF can be provided as grants or loans that will be able to leverage additional private funding to actually create new affordable rental housing.
- **Targeting Vouchers for High Need Populations:** The success of the HUD-VASH program has shown how sustain investments in collaborations between two federal agencies can make a significant impact on reducing homelessness for veterans. As HUD and USICH are continuing their efforts to end homelessness by 2020, additional housing resources are needed to encourage cross-systems collaboration and coordination that target high-need populations. CSH calls on Congress to provide an additional $177 million for Housing Choice Vouchers target homeless families, persons with disabilities, families and youth involved with child welfare and victims of dating and domestic violence in FY2016 to help communities serve households that have high housing and service needs.

Conclusion

Both the private sector and the public sector are essential for creating a robust and diverse housing market that is able to serve populations of all different incomes. Without continued investment from federal and state governments in affordable housing programs, many formerly homeless individuals and households would not have a place to call a home. CSH appreciates the opportunity to provide our perspective on this important topic and hope that you consider us as resource as Congress explores ways to improve and increase access to affordable rental housing.