



TESTIMONY OF JANET S. CHARLTON

TRITON ADVISORS, INC.

ON BEHALF OF THE

NATIONAL LEASED HOUSING ASSOCIATION

NATIONAL APARTMENT ASSOCIATION

NATIONAL MULTI HOUSING COUNCIL

BEFORE THE

HOUSE COMMITTEE ON FINANCIAL SERVICES

SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

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Chairwoman Waters, Ranking Member Biggert and distinguished members of the Subcommittee, my name is Janet Charlton and I am the President of Triton Advisors, Inc. I am here today on behalf of three trade associations—the National Multi Housing Council (NMHC), the National Apartment Association (NAA) and the National Leased Housing Association (NLHA).

NMHC and NAA represent the nation's leading private firms participating in the apartment industry. Their combined memberships include apartment owners, developers, managers, builders and lenders. The National Multi Housing Council represents the apartment industry's largest and most prominent firms. NMHC members are the principal officers of these organizations. NAA is the largest national federation of state and local apartment associations, with 190 affiliates representing nearly 51,000 professionals who own and manage more than 6.1 million apartments. NMHC and NAA jointly operate a federal legislative program and provide a unified voice for the private apartment industry.

The National Leased Housing Association has represented the interests of housing agencies, developers, owners, lenders, housing managers and others involved in providing federally assisted rental housing for more than 30 years. NLHA's more than 500 members are primarily involved in the Section 8 housing programs—both project-based and tenant-based—and provide or administer housing for over three million households.

We commend you, Chairwoman Waters and Ranking Member Biggert, for your leadership, and we thank the Members of the Subcommittee for your valuable work addressing the nation's need for affordable rental housing. We appreciate the dedication of the Subcommittee on this issue and the opportunity to present our views on the "Section 8 Voucher Reform Act" (SEVRA) as currently drafted.

We begin by saying that we believe the Section 8 voucher program has been largely successful in achieving the goal of assuring decent, safe and affordable housing for low-income families and the elderly. While the program does not need a major overhaul, it would benefit from changes aimed at reducing administrative burdens, promoting increased landlord participation and expanding housing opportunities.

The areas in greatest need of action include the program's funding formula, its inspection standards, its rent and income standards, its portability features and its ability to be used in concert with the Low-Income Housing Tax Credit (LIHTC) program.

Funding Formula

In recent years the Section 8 program has suffered from the lack of a permanent and reliable funding formula. In 2004, the U.S. Department of Housing and Urban Development (HUD) implemented a new and flawed voucher funding formula that based program funding on local costs from May-July 2004 plus an inflation adjustment. This arbitrary and unworkable formula resulted in unanticipated shortfalls, inadequate or excess reserves and general confusion as the nation's housing agencies attempted to adapt to it, often retroactively. It has negatively impacted applicants, voucher holders, public housing agencies (PHA), apartment owners, lenders and development entities and has resulted in the loss of more than 100,000 vouchers.

We are pleased that H. J. Res. 20 (enacted on February 15, 2007) includes a revised funding formula based largely on the formula outlined in SEVRA. Specifically, H. J. Res. 20 bases program funding on the most recent 12 months of voucher leasing and cost data (adjusted for inflation). This formula is fair and flexible; it maximizes the amount of dollars provided by the appropriations process and is a major step forward and should restore program stability. We encourage its adoption as the permanent formula for FY08 and beyond.

Inspection Standards

One of the biggest problems with the Section 8 program is that it is not "transparent" to the market. In other words, it costs an apartment owner more to rent to a voucher holder than it does to rent to an unsubsidized resident. One of the reasons for this cost discrepancy is the program's burdensome and often duplicative inspection standards.

Before a Section 8 voucher holder can rent a specific apartment, the administering public housing agency (PHA) must first inspect the unit to confirm that it complies with HUD-prescribed Housing Quality Standards (HQS). Unfortunately, these unit-by-unit inspections cause intolerable leasing delays and do not necessarily satisfy

HUD's objective of protecting residents since many of these properties are already inspected under other federal programs.

Even if the PHA conducts its inspection within the required time frame, many apartment owners still report that it can take 30 days or more to be approved due to the extensive workload of most housing agencies. While this approval is pending, the apartment unit remains empty, when the owner could otherwise be collecting rent on it. The apartment industry relies on seamless turnover to meet its overhead costs, and the financial implications of such delays are enough to deter many owners from participating in the program.

NMHC/NAA and NLHA strongly support provisions that make important reforms to the property inspection process, including addressing a redundancy that exists in federal inspection requirements. Currently, units that receive Low-Income Housing Tax Credits or are FHA-insured are already inspected as a condition of participation in those programs. We encourage Congress to exclude those units that have already passed inspections for other federal programs from a duplicative and time-consuming Section 8 inspection process.

In an effort to streamline the inspection process, we would encourage HUD to allow the PHAs the discretion to lease a unit that has minor defects (i.e., non-life threatening problems) instead of forcing the apartment owner to make the repairs before the lease can be signed. We also support a change allowing PHAs to inspect properties every other year instead of annually. We do, however, recognize that there are many small apartment properties that are not professionally managed that accept Section 8 vouchers. We understand that these smaller properties might require more frequent inspections, and therefore recommend that apartment buildings with fewer than 20 units be inspected every year.

SEVRA 2007 takes steps to improve the program, but we feel that it is necessary to add in additional language further reforming the burdensome inspection process. Specifically, we believe that the changes included in H.R. 5433, the "Section 8 Voucher Reform Act of 2006," as introduced in the 109th Congress, reduced the leasing delays and repetitive inspections while ensuring that properties continue to meet HUD's Housing Quality Standards.

We have attached language that would accomplish these goals. It has been endorsed by the following groups: the Institute for Real Estate Management, the National Apartment Association, the National Affordable Housing Management Association, the National Association of Home Builders, the National Leased Housing Association and the National Multi Housing Council.

Rent and Income Provisions

We are very encouraged by the draft SEVRA provisions that would streamline the process for calculating income and rent. Such provisions will reduce the administrative burdens on PHAs and participating property owners while ensuring that residents do not pay more for rent than they are paying today. We are particularly pleased that the draft SEVRA legislation proposes a three-year (versus an annual) re-certification of income for residents with fixed incomes.

We are, however, unable to support the bill's provision to terminate assistance and evict residents receiving project-based Section 8 assistance or vouchers when their income reaches 80 percent of area median income (AMI). HUD's income limits are not always accurate and can change greatly from one year to another. For example, as SEVRA is currently written, a resident who is receiving a subsidy and reports an income of 75 percent of AMI can be evicted when HUD changes the income limits, even if the resident's income remains fixed.

We understand that the intent of this provision is to free-up units for lower-income families, but realistically such a provision would only free-up a very small number of units. Our analysis of 84,877 project-based Section 8 units in three states revealed that less than two-tenths of one percent (198) had over-income residents. While the gain in units would be nominal at best, the change would devastate the affected families, many of whom are elderly or disabled and living on fixed incomes.

Portability

Currently, vouchers are “portable” in that voucher recipients have the ability to move to another approved voucher unit anywhere in the country. Proponents of nationwide portability claim that it allows families to move to new jobs or to be with other family members in other parts of the country without losing their assistance. Opponents argue that nationwide portability results in increased administrative burdens to housing agencies and often creates funding shortfalls.

If portability is to be continued, we strongly recommend that Congress require HUD to provide a mechanism to reduce the administrative burdens posed by portability, particularly as they related to inter-agency billing.

Project-based Vouchers

NMHC/NAA and NLHA are very pleased that the draft legislation provides PHAs the flexibility to set rents in project-based voucher units located in LIHTC properties. The LIHTC program is one of the few federal programs that can be used to preserve existing affordable housing and construct new affordable housing. Therefore, it is critical that there be consistency between the LIHTC and Section 8 programs so they can be used together to further increase the nation’s supply of affordable housing.

To that end, we recommend that the Subcommittee consider the following amendments to the Section 8 project-based voucher program to increase flexibility and maximize consistency with the tax credit program:

- Change the maximum initial contract term for the Section 8 project-based program from 10 years to 15 years to make it conform with the tax credit compliance period;
- Increase the percent of voucher funds that PHAs can use for project-based properties from 20 percent to 25 percent to make it possible for smaller PHAs to effectively use the project-based option;
- Amend the current provision that limits project-based vouchers in family properties to 25 percent of the units to allow the “greater of 25 percent of the units in a project OR 25 units;
- Ensure that expiring project-based “certificate” contracts can be converted to project-based vouchers. (HUD has not authorized such conversions due to a technical deficiency in the statute. A conversion amendment is critical to the preservation of the units);
- Permit site-based waiting lists (subject to PHA oversight);
- At the request of a property owner, allow a PHA to provide existing residents with project-based vouchers in lieu of enhanced vouchers when the owner opts out of a subsidy program or prepays a federally subsidized mortgage. This option would protect the residents while ensuring that the actual units are preserved as affordable.

Conclusion

The 2002 Millennial Housing Commission report identified affordability as the “single greatest housing challenge facing the nation.” Unfortunately, little progress has been made on the affordability crisis in the intervening five years. According to Harvard University, 35 million households spend 30 percent or more of their annual income on housing.

Affordability problems don’t discriminate; they now exist in urban, suburban, and rural counties. The Section 8 program has long served as America’s primary rental subsidy program. If it is to continue meeting our nation’s growing housing needs, it should be revised so more apartment owners will participate in it. It requires a stable funding source, and it must be consistent with the LIHTC programs so those resources can be leveraged to produce more housing than either program could produce individually.

We support the goals of SEVRA and are pleased to provide some additional points for consideration that will enable SEVRA to better meet the needs of America’s hard working families who cannot find decent, affordable housing. We appreciate the opportunity to express our views, and we stand ready to work with the Subcommittee on the Section 8 program and other critical housing issues.

Proposed language:

H.R. 5443

Section 8 Voucher Reform Act of 2006 (Introduced in House)

SEC. 2. INSPECTION OF DWELLING UNITS.

Section 8(o)(8) of the United States Housing Act of 1937 (42 U.S.C. 1437f(o)(8)) is amended--

(1) in subparagraph (A), by inserting 'subparagraph (D) of this paragraph and' before 'paragraph (11)';

(2) by redesignating subparagraphs (D) and (E) as subparagraphs (E) and (F), respectively;

(3) by inserting after subparagraph (C) the following new subparagraph:

'(D) EXCEPTIONS TO INITIAL INSPECTION REQUIREMENT PRIOR TO OCCUPANCY-

'(i) RECENT INSPECTION UNDER HOUSING CHOICE VOUCHER PROGRAM- In the case of any dwelling unit [**insert - in a property**] that, within the 30-day period ending upon initial occupancy by a family assisted under this subsection, was occupied by another family so assisted, an inspection pursuant to subparagraph (A) shall not be required if such unit was inspected during the 12-month period ending upon such initial occupancy and was determined to comply with the housing quality standards under subparagraph (B).

'(ii) RECENT INSPECTION UNDER OTHER PROGRAMS- In the case of any dwelling unit [**insert - located in a property**] that, during the 12-month period ending upon such initial occupancy, was inspected pursuant to requirements under a Federal, State, or local housing assistance program (including the HOME investment partnerships program under title II of the Cranston-Gonzalez National Affordable Housing Act (42 U.S.C. 12721 et seq.)), an inspection pursuant to subparagraph (A) shall not be required if--

'(I) pursuant to such inspection, the dwelling unit [**insert - or property**] was determined to meet the standards or requirements regarding housing quality or safety applicable to units assisted under such program; and

'(II) the public housing agency certifies to the Secretary that such standards or requirements provide the same protection to occupants of dwelling units meeting such standards or requirements as, or greater protection than, the housing quality standards under subparagraph (B).

'(iii) CORRECTION OF NON-LIFE THREATENING CONDITIONS- In the case of any dwelling unit that is determined, pursuant to an inspection under subparagraph (A), not to meet the housing quality standards under subparagraph (B), assistance payments may be made for the unit notwithstanding subparagraph (C) if failure to meet such standards is a result only of non-life threatening conditions. A public housing agency making assistance payments pursuant to this clause for a dwelling unit shall, upon the expiration of the 30-day period beginning upon commencement of the period for which such payments are made, suspend any assistance payments for the unit if any deficiency resulting in noncompliance with the housing quality standards has not been corrected by such time, and may not resume such payments until each such deficiency has been corrected.'; and

(4) in subparagraph (E), as so redesignated by paragraph (2) of this section--

(A) by striking 'ANNUAL INSPECTIONS' and inserting 'BIENNIAL INSPECTIONS';

(B) by striking 'shall make an annual inspection of each assisted dwelling unit during the term of the housing assistance payments

contract for the unit' and inserting `shall, for each assisted dwelling unit, make biennial inspections during the term of the housing assistance payments contract for the unit'; and
(C) by inserting after the period at the end of the first sentence the following: `In the case of a dwelling unit described in clause (i) or (ii) of subparagraph (D), the first such annual inspection shall take place during the 2-year period beginning upon the most recent inspection conducted with respect to the occupancy of the unit by the family previously residing in the unit.'.