



Public Housing Authorities Directors Association

511 Capital Court, NE, Washington, DC 20002-4937
phone: 202-546-5445 fax: 202-546-2280 www.phada.org

Testimony of P. Curtis Hiebert

Vice President for Legislation

The Public Housing Authorities Directors Association

before the

House Financial Services Committee

Subcommittee on Housing and Community Opportunity

“The Section 8 Voucher Reform Act”

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Chairperson Waters, Ranking Member Biggert and committee members, I am Curt Hiebert, Executive Director of the Keene Housing Authority in Keene, New Hampshire and the Vice President for Legislation of the Public Housing Authority Directors Association (PHADA) and am honored to testify before you today on PHADA's behalf.

Our association was founded in 1979 and represents over 1,800 housing Authority chief administrative officers. A significant proportion of PHADA members administer small or medium sized agencies and a mixture of assisted housing programs. Some operate public housing, some Housing Choice Vouchers, many operate both programs, and a number of members operate assisted housing financed with HOME, CDBG, LIHTC, Department of Agriculture or other non-federal support.

We are grateful that the assisted housing reform initiative started during the last congress remains a matter in which you are interested and are willing to invest the Committees' resources to address. The draft bill language that PHADA has reviewed reflects substantial improvements over the bill reported by the Committee in the 109th Congress (H.R. 5443 RH) both as to its policy recommendations and its potential costs. In general, PHADA supports the draft language and looks forward to collaborating on further refinements, clarifications and improvements.

Many of the provisions contained in the draft are very attractive to PHADA and to its members, reducing administrative requirements for program sponsors. Although we understand that many of the modifications to last year's H.R. 5443 language in this draft are intended to render the proposal revenue neutral, PHADA believes that the bill retains provisions that may have significant cost implications for HAs and other program sponsors that differ among assisted housing programs. Of particular concern to us are provisions that tend to diminish potential rent revenue in public housing when Congress faces difficulties meeting its current financial commitments. The public housing program lacks cost reducing mechanisms available in various Section 8 program components (e.g. temporarily removing units from the assisted inventory, lowering voucher utilization rates to accommodate funding reductions) and much of the cost savings projected by the Congressional Budget Office (CBO) result from changes in income targeting that will not affect public housing.

Although the bill proposes reforms for the assisted housing rent and income calculation protocols, the bill may not make a very complicated system much simpler. We would prefer an income and rent calculation protocol dramatically less complicated than the existing system.

The proposed bill does not yet include provisions concerning the Moving to Work (MTW) demonstration program, as H.R. 5443 did. There are several alternative treatments of MTW under consideration at the moment, and PHADA has endorsed the Moving to Work Charter Program Act proposed in the Senate during the last Congress by Senator John Sununu (R, NH). We hope the committee will consider this alternative as it prepares MTW provisions for a revised SEVRA bill. We urge the committee to include provisions that:

- Make the MTW demonstration permanent,
- Expand the MTW program,

- Assure a robust evaluation process focused on the effects of local flexibility on program participants and applicants,
- Offer reasonable protections for applicants, tenants and participants, and
- Continue existing MTW agencies' ongoing participation by right.

Finally, the bill includes a voucher funding allocation protocol that restores a unit based system critical to the program's stability, offers mechanisms that should permit sponsors to rebuild the voucher utilization that has been lost since 2003, and provides ways for program sponsors to accommodate local market variability while encouraging cost constraints and maintaining voucher utilization rates.

Following are more detailed comments arranged by section in the draft language.

Section 2. Inspection of Dwelling Units

PHADA supports proposed provisions concerning voucher inspections. The bill provides HAs with the discretion to begin short term housing assistance while owners complete HQS corrections, and to target HQS inspections on housing and owners most prone to HQS difficulties. The first form of discretion can help avoid situations that may unreasonably disrupt participants' lives and give owners the flexibility to address housing quality deficiencies more deliberately. The second form of discretion will allow HAs to reduce administrative overhead and target inspection resources where HAs believe deficiencies are more likely. In addition, defining other federal, state or local housing assistance program housing quality inspections as meeting the Section 8 inspection requirement will avoid duplicative and wasteful inspections and help reduce the program's administrative burden.

Section 3. Rent Reform and Income Reviews

PHADA supports a number of proposed provisions that offer HAs opportunities to reduce administrative overhead and deliver housing assistance more efficiently and effectively. On balance, we believe that the provisions concerning reviews of income are helpful despite our misgivings with new statutory standards for interim recertifications that have been subject to local discretion. However, we remain concerned with income and rent provisions that will constrain HAs' rent revenues at a time when Public Housing prorations are at 83 percent; in 2007 and may drop to 80 percent in 2008.

Public Housing Costs

Using the Congressional Budget Office (CBO) cost estimate for H.R. 5443 as its starting point, PHADA has estimated some costs of rent provisions for public housing as follows:

Earned Income Disregard	\$110 million
Definition of Income	\$4 million
Elderly Deduction	\$50 million
Dependent Deduction	\$5 million
Medical Deduction	(\$60 million)

Child Care Deduction	(\$50 million)
Using Historical Income Information	\$147 million
Minors' Earned Income, Spousal and Child Support	\$unestimated
TOTAL	\$206 million

Many of these changes (e.g. the Earned Income Disregard, the Medical Deduction, and the Child Care Deduction) represent significant simplifications in the rent system that agencies should find very helpful. However, in the current budget environment, a reduction in public housing rent revenue on the order of \$200 million will not be made whole through annual appropriations. The public housing program is already under serious fiscal stress and PHADA remains concerned with the funding impacts of these proposals.

Proposals that reduce rental income in Public Housing may also produce unintended reductions in the new Operating Fund formula that will hold rents constant as of 2004 in calculating Operating Fund eligibility until 2010. If the draft bill reduces rent revenue during transition years, the new formula may under fund HAs vis a vis costs predicted by the Harvard Cost Study. PHADA urges that the bill include language directing HUD to correct for declines in rent revenue that result from changes to statutory language during the asset management transition.

Reviews of income

Although PHADA is concerned generally with setting a \$1,500 threshold for interim recertifications in statute, the proposed language does clarify the Congress's expectations and provides HAs with a clear safe harbor for interim recertification policies. Until now, HAs had broad discretion over their treatment of interim recertifications in their locally developed Admission and Continued Occupancy Policies (ACOPs). Agencies will still retain discretion to conduct interim recertifications at income change thresholds lower than \$1,500.

A triennial recertification requirement for households that receive fixed incomes will affect approximately half of assisted housing recipients and represents a significant reduction in HAs' administrative responsibilities that PHADA supports. Self certification of income adjusted for inflation during intermediate years, coupled with HUD's web based Enterprise Income Verification (EIV) system should provide sufficient safeguards against improper payment of housing subsidy to self certifying households.

Permitting HAs to use historical income information in redetermining income and rent should be very helpful to HAs and PHADA supports this approach. Current requirements to anticipate annual income is often a very difficult and uncertain exercise with assisted housing's clientele that has contributed to the impropriety of some payments of housing assistance.

PHADA strongly supports a simplified version of an earned income exclusion and supports application of the provision to all assisted housing participants rather than just Public Housing tenants. Although the provision should encourage some assisted housing participants to gain earned income without dramatic increases in their housing costs, PHADA believes that alternative approaches could increase incentives for more households to increase earnings. If Congress adopts proposed changes to the federal minimum wage, full time annual earnings from

minimum wage jobs will rise from slightly more than \$10,000 to slightly more than \$15,000. Minimum wage earners would benefit from an exclusion of \$1,000 from their income, but experience a net rent increase of approximately 40 percent as a result of a net increase in earnings of \$4,000.

Alternative approaches to an earned income deductions that may risk less lost rent revenue and offer participants greater incentive to increase earned income include offering a disregard of some substantial proportion of annual marginal earned income or offering participants a disregard of some proportion of annual earned income in excess of \$10,000. Although the second alternative is not progressive in its impact, it is simple and straightforward for participants to understand and HAs to administer, and both alternatives offer significant incentives to increase earnings. PHADA is very interested in remaining engaged in discussions concerning the optimal feasible alternative for offering a rent incentive in assisted housing that encourages rising earned incomes, doesn't risk substantial losses of potential rent revenue, particularly in Public Housing, and represents a simplification of the rent calculation system.

Defining income determinations for other means tested federal assistance programs as a safe harbor for assisted housing programs may offer sponsors significant opportunities to reduce administrative overhead and eliminate duplicative, wasteful redeterminations. However, agencies must make arrangements with sponsors or administrators of other programs to gain access to that information, and the impact of this provision will likely depend heavily on other state and federal requirements (e.g. privacy and confidentiality laws and rules).

Finally, instructing HUD that de minimus errors in income and rent determination do not represent a failure to comply with federal requirements will prove helpful to HAs. The provision may preclude some egregious findings that have been reported in HUD oversight reviews in the last few years.

Definition of Income

The new definition excludes any income of household members under 18 years of age except for the head of household, including unearned income of minors and spouses. The change adds additional categories of income that HAs must exclude in their determinations and redeterminations, further reducing rent revenue and increasing the opportunities for errors that may result in improper housing assistance payments.

The provision will exclude imputed income from assets, reducing annual income and rent revenue. However, in PHADA members' experience including this imputed income rarely produces significant amounts of rent and is a frequent source error. The costs of determining such imputed income far exceed its benefits and PHADA strongly supports this change...

Adjusted Income

PHADA does not object to increases in deductible amounts for dependents (\$20 per year) and for elderly and disabled households (\$325 per year), except as they impact rents, particularly in the

Public Housing program. The provision for inflating these deductions annually will grow this impact over time.

The proposed change in the medical expense deduction will both reduce the amount of that deduction available to elderly and disabled households and will reduce the administrative burden the deduction imposes on program sponsors. PHADA supports the provision.

The provision proposes to eliminate deductions for child care expenses, child support and spousal support payments, simplifications that PHADA supports. These provisions do not risk reducing potential Public Housing rent revenue.

Section 4. Eligibility for Assistance based on Assets and Income

In general, PHADA is gratified that the draft language changes eligibility language in H.R. 5443 that would have had serious adverse consequences for public housing. Provisions that required evicting the very few over income Public Housing residents seemed counter intuitive given recent emphasis on developing mixed income communities and the desire to maintain effective and successful role models in Public Housing apartment complexes. We remain convinced that over income households do not generally remain in assisted housing for long, and that they represent a human resource asset that only lightly burdens the properties while they do remain.

PHADA questions the wisdom of requiring the eviction of over income residents from Section 8 project based apartment complexes for many of the reasons we object to their eviction from Public Housing. We fear that the draft bill may be subject to some criticism with this differential treatment between these two assisted housing programs.

We understand concern over the potential for cash poor but asset rich applicants obtaining or participants retaining rare assisted housing resources. However, we remain convinced that requirements to assess the net values of liquid and non-liquid assets for eligibility purposes consume administrative resources that might be put to better use.

Section 5. Targeting Vouchers to Low Income Working Families

In general, PHADA supports efforts to make assisted housing available to poor working households. However, in addition to cost concerns described above, this provision will begin to institute a layered targeting approach with different standards for different programs that vary geographically, possibly within some metropolitan areas. Families may fall within targeted populations for one program and not for another, or fall within a targeted populations in one locality but not in a neighboring locality. For the sake of simplicity and transparency, PHADA believes it best to retain uniform targeting income standards among assisted housing programs.

Section 6. Voucher Renewal Funding

PHADA supports proposed changes to the Housing Choice Voucher program's funding allocation system. The following remarks suggest matters that deserve clarification or that may be improved through modest changes.

The proposal bases funding on the, “preceding calendar year.” That period may either be a year for which HUD has accurate information but is approximately 18 months old, or the period may be the more recent year for which HUD may not have accurate unit and cost information, delaying timely notices of funding levels. PHADA suggests consideration of a non-calendar 12 month period for which we can expect HUD to have accurate utilization and cost information and also provide the department with the time to notify sponsors of an accurate funding level in a timely manner.

The provision requiring that all reserves be exhausted before a sponsor can access the funding advance presents difficulties. If an agency depletes all reserves and borrows against its next year’s allocation, and that allocation is prorated due to insufficient appropriations, the sponsors risk having to terminate existing voucher participants currently receiving assistance due to insufficient funds. PHADA suggests that sponsors’ reserve levels not be a factor in receiving a funding advance.

The provision requiring recapture of unused funding in 2007 appears to apply to funds unused as of December 31, 2007. This provision will be clearer if the effective date is explicit in the bill. On reallocation of recaptured funds, the current draft provision provides for priority based on funding utilization. PHADA suggests that the bill include a specific benchmark for sponsors to reach in order to receive reallocated funds. We believe that utilization of 97 percent of allocated funds is a sound benchmark to use for reallocating recaptured funds.

We do not understand the purpose of restricting the use of reallocated funds to increasing voucher utilization rates up to a sponsor's authorized level. Permitting sponsors to exceed their authorized leasing level will not cost the federal government any additional funds and will provide agencies flexibility to serve as many households as they are able, given their funding and their local market conditions. PHADA suggests that this restriction on the use of reallocated funds be removed. Congress could still provide priority for receipt of reallocated funds to sponsors that had not reached their authorized leasing level.

Currently, changes to the Section 8 funding allocation system will be effective upon enactment. The allocation of 2007 appropriations will already be made based on a “most recent 12 month” formula, and PHADA believes that mid year changes to those allocations will be very disruptive. We urge that the effective date of the formula be January 1, 2008.

Section 7. Administrative Fees

PHADA supports the distribution of administrative fees based upon voucher utilization, but the draft provision provides no information on the basis for initially setting administrative fees. PHADA supports the continuing use of the formula in Section 8(q) of QHWRA. If fees are updated, they must take benefit as well as wage inflation information into account as the inflation of benefit costs has been higher than wage inflation.

Section 8. Section 8 Homeownership Downpayment Program.

PHADA supports the flexibility this provision offers program sponsors to encourage homeownership among appropriate voucher participants.

Section 9. Reporting of Rent Payments to Credit Reporting Agencies

PHADA supports authorizing sponsors to report rent payments to credit reporting agencies at their discretion, parallel to the common practice in the Public Housing program.

Authorities often report Public Housing residents' rent payment histories to credit reporting agencies to help those residents build an acceptable credit history. The draft provision will authorize authorities to report voucher holders' rent payments to private landlords to the same end. Currently the agencies have no grounds to report those payments since they do not receive the payments, and many small landlords do not report these payments or do not participate in credit reporting agencies.

Section 10. Performance Assessment

The new draft requirements for an apparently additional performance system surprised PHADA. If the proposal is a replacement for SEMAP, since it is less complex the proposal appears to be an improvement. However, we urge that HUD be required to consult with stakeholders in changing the existing assessment system. We also urge that sponsors' financial conditions not be an element of this assessment. For housing authorities, financial condition is already assessed under PHAS, and the nexus between financial condition and Section 8 administrative capacity is not immediately apparent. Sponsors that are also engaged in development activities may appear unjustifiably to be at some financial risk, and housing authorities operating under the burden of an 80 percent to 83 percent proration may appear to be in some difficulty.

Section 11. PHA Project-Based Assistance

PHADA supports this provision's return to the practices in use prior to HUD's recent restrictions on project-based rents when Section 8 was used in combination with Low Income Housing Tax Credits. The provision should facilitate developments that were rendered infeasible by HUD's recent policy change.

Other Matters:

In addition to concerns related to specific sections of the draft bill, PHADA also has questions regarding possible draft language on portability and the status of any cap on authorized vouchers.

Draft language on portability requires a receiving agency to absorb an incoming portable voucher. This may or may not present receiving agencies with difficulties depending on whether the draft bill retains or rejects an agency's authorized number of vouchers as a firm cap on utilization. We have not found any restriction in the bill to an agency serving families in excess of its authorized number of vouchers, and we understand that the agency may be funded for such vouchers in the following year. Reallocated recaptured funds may be used to support absorbed incoming portable vouchers without restriction. However, the draft provision concerning

portability indicates that an agency may absorb incoming portable vouchers in excess of its authorized number of units and receive funds to support those incoming vouchers in the following year, "...if otherwise permitted to do so..."

PHADA does not understand the purpose of this phrase if sponsors must absorb incoming portable vouchers, including portable vouchers in excess of their authorized number of vouchers and receive subsequent year funding for those vouchers. The phrase makes sense to PHADA if agencies will not receive funding for absorbed incoming portable vouchers that exceed the agencies' authorized vouchers. In the latter case, agencies will only be able to absorb portable vouchers upon turnover of a voucher already in use, a practice that could severely limit admissions from a local waiting list where an agency experiences significant in-migration of voucher holders. It appears that the proposed portability language in conjunction with other draft bill language will apply an authorized voucher cap in connection with some sources of funds (e.g. reallocated recaptured funds) but not others (regular annual allocations), and in connection with some kinds of vouchers (standard Housing Choice Vouchers) but not others (incoming portable vouchers).

For the purpose of clarity and simplicity, PHADA urges that there be no cap on the number of vouchers a sponsor can support.