

Testimony of Terri Hamilton Brown, Executive Director of the Cuyahoga Metropolitan Housing Authority, on Behalf of the Council of Large Public Housing Authorities, before the House Financial Services Committee, Subcommittee for Housing and Community Opportunity

April 23, 2002

Good Afternoon, Chairwoman Roukema, Ranking Member Frank and Subcommittee Members -

I am Terri Hamilton Brown, Executive Director of the Cuyahoga Metropolitan Housing Authority (CMHA), which owns and operates public housing in the Cleveland, Ohio area. I would like to first recognize my Congresswoman Stephanie Tubbs Jones, of the Ohio 11th District, who has been a champion for low-income families and affordable housing in our community. I also want to thank Chairwoman Roukema for inviting me to testify on behalf of the Council of Large Public Housing Authorities (CLPHA).

CMHA manages 10,856 units of public housing in five municipalities and administers 11,917 Section 8 vouchers throughout Cuyahoga County. CMHA is one of the original members of CLPHA, which has been representing large public housing agencies since 1981. CLPHA's members manage over 40% of the Nation's public housing and almost 30% of the Section 8 tenant-based assistance. As you know, public housing is home to over 3.2 million Americans who would otherwise have great difficulty locating decent, affordable housing. Our residents include over 1 million elderly and disabled, about 250,000 veterans and about 1.2 million children.

Speaking on behalf of all public housing agencies, we appreciate the efforts of this Subcommittee to draw attention to affordable housing issues, through the legislative initiatives included in H.R. 3995. CLPHA's membership is particularly interested in and has specific recommendations regarding provisions related to reauthorization of the HOPE VI program, private debt financing for public housing properties, elderly housing, a third party public housing assessment system and the Section 8 program. Given that public housing serves the most needy families, it is recommended that PHAs have full access to any new programs that produce affordable housing units. Although authorizing proposals, such as those contained in H.R. 3995, can help public housing, it should be stressed that no program can be successful unless it receives adequate funding. Legislative efforts to increase resources for public and assisted housing, such as the recent initiative to obtain an additional \$15 billion in Federal assistance, are critical to ensuring that low-income Americans have access to safe, decent, affordable shelter.

I. The HOPE VI Program Should Continue Its Focus on Eradicating the Most Severely Distressed Housing and, At the Same Time, Facilitate The Redevelopment of Some Smaller Projects.

I am especially pleased that H.R. 3995 reauthorizes the HOPE VI program. Not only has HOPE VI been the catalyst for turning around neighborhoods that were once forgotten, but the program was the first to facilitate the investment of private monies into public housing. CMHA has received three HOPE VI implementation grants for five different properties, which are allowing us to address a total of 1648 severely distressed housing units through renovation,

demolition, and new construction. To date, CMHA has completed the renovation of 503 public housing units at King Kennedy South and Outhwaite Homes, and turned them into viable and competitive properties by employing the defensible space concepts of individual entrances, landscaping, fencing, and security lighting. Because of HOPE VI, CMHA was able to transform an outdated highrise into the Carl B. Stokes Social Services Mall, which was a national model when it opened in 1996. The Stokes Mall has served thousands of residents since its inception through more than 20 different social service providers, including two transitional housing programs, a neighborhood network computer center, literacy and job training partnerships, and a daycare center, which will also provide training opportunities for residents. As the HOPE VI program has evolved, CMHA has adopted a mixed income community approach while still trying to maintain the number of public housing units available to our traditional clientele of very low-income families, and the services necessary to support and empower residents.

While HOPE VI has had many successes, there remain numerous severely distressed public housing properties that, without HOPE VI, will never be revitalized. For example, CMHA has two properties, Valleyview and Woodhill Homes, which date back to 1940 and are both functionally obsolete with site layouts and infrastructures that do not accommodate today's needs or life styles. Since CMHA's estimate of capital improvement needs is more than \$200 million, it is important that targeting distressed properties remain the primary focus of this program, as they make up a substantial part of the public housing modernization backlog. I appreciate efforts in H.R. 3995 to give more PHAs access to the program, however, the focus should be on the size of the project that is eligible, not the size or geographic location of the PHA. There are situations where smaller agencies have large scale, severely distressed properties in need of a traditional HOPE VI grant, and larger agencies need financing to redevelop smaller communities.

I endorse CLPHA's recommendation to revise language in H.R. 3995 to create a two track system for HOPE VI - one track that continues to provide grants to the most severely distressed and a second track that would focus on smaller redevelopment projects that require smaller grant amounts. Such a system would provide housing authorities of all sizes with greater access to funds.

Another on-going concern about HOPE VI for PHAs of all sizes is the burdensome and constantly changing application process. CMHA, like many other housing authorities, invests significant resources in design plans and the application process for HOPE VI grants. It is common to spend between \$150,000 and 250,000 per application. Given that HUD changes elements of the application criteria each year, an application that does not receive an award in one year must often be mostly re-written in the following year. To create a more efficient funding system and avoid the drain and possible waste of resources resulting from another application process, CLPHA recommends that H.R. 3995 enable HUD to give priority to applications which receive a score of 85 or above in the prior year. In addition to that recommendation, I strongly suggest that you direct HUD, through notice and comment rulemaking, to establish application criteria for the HOPE VI program going forward.

II. The Project-Based Private Debt Financing Strategy for Public Housing Included In H.R. 3995 Will Not Generate the Private Investment Promised and Could Lead to “Opt-Outs” in Public Housing.

In the FY 2003 budget, HUD justifies a 15% Capital Fund cut by proposing a private debt financing model which the Department believes will generate enough non-governmental money to off-set the reduction. CLPHA members recognize that backlog modernization needs cannot be met with government money alone and are looking for additional tools to help private investment. However, lenders will not be interested in lending money to public housing if the Federal government signals that it seeks to disinvest in the program. HUD has made clear that even if it could implement such a proposal in FY 2003, which seems doubtful, not all PHAs could take advantage of it. As a result, all PHAs would suffer a funding cut, but only a handful would be able to offset the loss with private money. Given that outcome, this proposal does not in any way justify a reduction in the Capital Fund appropriation.

The debt-financing model included in H.R. 3995 does not recognize that PHAs are already successfully using the Capital Fund to leverage millions of dollars in private money through bank loans and bond issuances without putting public housing at risk of foreclosure. Several multi-million dollar transactions have been closed with repayment pinned on a PHA's future allocation of Capital Funds. In addition, one major bond issue has closed and several others are now being negotiated by PHAs with Wall Street and the established bond rating agencies including Standard & Poor's, Moody's and Fitch. These borrowings are possible because investors and the bond rating agencies have seen - up to now - the stability of capital appropriations, upon which they rely for repayment. The model included in H.R. 3995 and the accompanying drastic reduction to the Capital Fund will hamper these efforts. Moreover, HUD has been extremely slow in processing these transactions, making it even more costly for PHAs to access private money.

CLPHA members also have serious concerns about several elements of this proposal. The provisions giving HUD the authority to remove the low-income use restriction on public housing property in the event of foreclosure, is of particular concern as it places public housing units in danger of “opting-out”. This could result in the additional loss of low-income housing stock for many communities like Cleveland that have already experienced numerous HUD-insured property foreclosures and opt-outs. Other provisions giving HUD the ability to operate properties that are financed privately instead of by the PHA, to displace lower income residents under certain circumstances, and waive other public housing requirements are also problematic. Moreover, this model has never been tested, thus it is unclear whether banks, investors and other private interests will lend money to public housing under these circumstances.

PHAs need as many tools as possible to access private investment. However, what works in one community might not work in another. To that end, I urge you to adopt a two-pronged approach that would enable PHAs to leverage more private funds by: (1) including language in the bill that would give explicit guidance to HUD in order to expedite the agency-wide Capital Fund borrowings which have already successfully raised hundreds of millions of dollars, and (2) directing GAO to prepare an analysis of other models that could potentially generate private investments. This way, PHAs could continue to use a model that works and at the same time

gauge the interest of lenders and identify any unanticipated requirements and default measures that would jeopardize the continued use of these properties by low-income families.

III. *Elderly Plus* Will Provide Safer, Better-Serviced Buildings, Will Help Seniors Avoid Premature Shifts to Nursing Homes, and Save Medicaid Funds

Public housing is the Federal government's largest program serving low-income elderly and disabled residents. Almost forty percent of public housing units house these vulnerable populations, yet few of our buildings are configured to serve special needs or are staffed with social service professionals experienced in meeting these needs. Given that over two-thirds of these buildings are now over thirty years old, they were not designed to comply with the *Americans With Disabilities Act* and lack other needed amenities, including sprinkler systems, community-dining facilities, space for physical and recreational activities, grab bars and other physical aids. The physical needs of our elderly residents are also changing rapidly as they are living longer with more chronic medical conditions. Public housing presents a great opportunity to be retrofitted for the various forms of assisted living to support the rapidly aging population, which would enable elderly residents to delay the inevitable move to nursing homes. In addition, the provision of appropriate mental health and social services would assist with the management of both elderly and disabled residents at public housing properties and help them maintain an independent lifestyle.

CMHA created the Manor at Riverview in recognition of the need for such a program, and included 69 units of supportive housing and a health clinic as part of a major modernization effort at a large elderly highrise building. Our experience has shown it takes both a huge investment in capital improvements and funding for on-going personal care and health services, as well as social service coordinators. Although the intent of the Manor is to provide the necessary physical and social support services by which our frail senior public housing residents can continue to live independently, it has been a real challenge to make this program affordable for very low-income families and to attract a quality service provider for the limited funding that this program can generate, particularly in a state like Ohio, which has not adopted a Medicare waiver provision.

While H.R. 3995 includes a provision to enable projects funded under the Section 236 program to be converted to assisted-living type facilities, and there is already a program for projects financed under Sections 202, Section 8 and other FHA programs to do the same, there is no similar authorization for public housing. To that end, CLPHA is working with other housing industry groups to gain support for the *Elderly Plus* proposal. This initiative would create a demonstration of \$100 million for competitive awards to PHAs, large and small, for innovative conversions of obsolete buildings for the elderly and/or disabled into assisted living facilities and other supportive housing. Awards would be coupled with funds for service coordinators to leverage local services or for congregate care services. Funds could come from a separate appropriation or recaptured Section 8 monies. The *Elderly Plus* proposal has already been introduced in the Senate as S. 1885. I encourage you to include *Elderly Plus* in H.R. 3995, so elderly and disabled persons in public housing have equal access to supportive living environments.

IV. Public Housing Program is Successful, On The Whole, Well Managed, But Needs A Reasonable Assessment System That Establishes and Measures Standards for Performance.

Since 1937, the public housing program has provided shelter to billions of needy Americans who are not served by the private real estate market. Despite unsubstantiated claims to the contrary, the public housing program is, on the whole, effective and well managed by approximately 3,200 local public housing authorities (“PHAs”). In recent years, many PHAs have made great strides in leveraging their resources to improve the quality of the housing they provide, rebuild neighborhoods, and support residents. Housing authorities that misuse funds or do not perform to industry standards should be penalized. However, it has become increasingly difficult for PHAs to demonstrate that they are successfully meeting an appropriate standard given the flaws of the Public Housing Assessment System (PHAS).

Problems with the current system, especially concerning physical inspections, have been well documented by CLPHA and the other industry groups. CMHA, along with many other housing authorities, can provide examples of how some of our best properties have unjustifiably received failing scores. We welcome and support a physical inspection assessment of our properties; however, it has to be done through a fair and credible evaluation system that reflects the true condition of the property for the sake of the residents who live in these buildings, our ability to adequately evaluate management and maintenance staff, and general public perception.

While we support Section 503 to the extent it calls for an entity outside of HUD to develop a prototype assessment system, we do not feel it goes far enough to ensure that clear, measurable standards are part of such a system. This could be accomplished by adding language to create a National Housing Quality Board that would be charged with developing and enforcing standards for public housing authority performance. This group of independent real estate industry professionals would establish standards that could be measured by the prototype assessment system. A similar industry-driven model has been successfully used in the manufactured housing industry and is similar to recommendations set forth by the National Academy of Public Administration (NAPA) in its recent report to Congress. Given the number of privately managed HUD-assisted housing properties that have defaulted in the past several years due to poor management and oversight, such a system might be appropriate for HUD’s Section 8 portfolio as well.

V. The Provisions of H.R. 3995 Effecting Section 8 Will Help Improve the Program, However, Additional Flexibility Is Needed To Improve Utilization In Tight Real Estate Markets.

Good management is important to improving the use of the Section 8 voucher program, but it only tells part of the story. While we at CMHA have taken our Section 8 program from troubled to a high performer in just three years and have achieved a 98% utilization rate, many of my colleagues in tight real estate market areas, despite good program management, are having difficulty using vouchers due to a shortage of affordable rental units. We believe that many of the Section 8 program enhancements proposed in H.R. 3995, specifically the provisions to assist

hard to house families, simplification of rent calculations, and creation of more incentives in the Section 8 administrative fee, will make the program an even more effective way to assist low income families.

Section 8 could also be better used in most housing markets if PHAs had more flexibility to attach subsidy to specific units through the project-based program. Currently, the law makes this difficult because (1) it limits the number of units receiving subsidy to no more than 25% of a building; (2) the site selection criteria exclude areas with higher poverty rates which prevent the redevelopment of many inner-city neighborhoods that are in need of an investment catalyst and make it difficult to preserve affordable units in rapidly gentrifying areas; and (3) the procedures for procuring developers for these units is overly-complicated. We encourage you to consider adding language to H.R. 3995, which would improve utilization rates by enhancing the ability of PHAs to use the project-based program.

VI. PHAs Should Be Important Players In Any New Affordable Housing Production Programs.

My colleagues and I endorse the efforts to create more affordable housing units targeted at families with extremely low incomes. As this is the population that makes up the largest portion of the PHA waiting list, it is critical that PHAs have easy, direct access to these programs so that families who have waited, in some cases, for years for affordable housing will have first priority. However, without additional resources to fund such a program, it will do little to alleviate the affordable housing crisis. Despite the important role of public housing in serving the neediest families, there is also a statutory bar to the development of incremental or replacement public housing units. A repeal of this provision should be included in H.R. 3995, so PHAs can fully participate in any new development efforts.

Again, I appreciate the opportunity to testify before you today on behalf of CLPHA, and look forward to working with you on legislation to improve public and affordable housing programs for the residents we serve.