

**STATEMENT OF MICHAEL LIU**  
**Assistant Secretary**  
**Office of Public and Indian Housing**  
**U.S. Department of Housing and Urban Development**



**BEFORE THE**  
**UNITED STATES HOUSE OF REPRESENTATIVES**  
**COMMITTEE ON FINANCIAL SERVICES**  
**SUBCOMMITTEE ON HOUSING AND COMMUNITY**  
**OPPORTUNITY**

**April 24, 2002**

I am Michael Liu, Assistant Secretary for Public and Indian Housing at the U.S. Department of Housing and Urban Development. In that position I have responsibility for administration of the public housing, voucher and Native American housing programs. Accordingly, I will limit my testimony to Titles IV, V and VI of the bill, which concern those programs.

First, Congresswoman Roukema, thank you and your cosponsors for developing and introducing the Housing Affordability for America Act of 2002. The bill contains many proposals that will allow us to do our jobs better, of providing the most effective low-income housing assistance possible with the funds available. The reauthorizations for two of our critical programs, HOPE VI and Native American Block Grants, are critical measures in themselves. The bill contains several measures to achieve our common goal of assuring that the voucher funds Congress appropriates can be fully used. The bill also contains the Administration's Public Housing Reinvestment Initiative, which holds great promise as a means of improving the Nation's public housing communities.

#### Title IV, Section 8 Rental Housing Assistance Program

Section 401 of the bill proposes a new thrifty production voucher program. This program is patterned after the current project-based voucher program, but assumes that the capital for production will be found from other programs or sources and provides for a reduced subsidy designed to cover only operating costs.

HUD generally supports additional tools that may help public housing authorities (PHAs) meet their communities' housing needs, and in that context will work with the Committee to develop a means of offering vouchers that can be combined easily with capital subsidies. The current proposal seems rather complex and differs from the project-based voucher program in ways that may not be necessary, such as waiting list administration, development location requirements and several others. I look forward to further discussions on this matter.

The bill contains several initiatives designed directly or indirectly to increase the successful use of appropriated voucher program funds, including an increase in the amount families can expend as their share of rent when initially leasing any unit (section 402), authorization for PHAs to use up to five percent of program monthly assistance payment funds (as opposed to administrative fees) for efforts to help families obtain and remain in suitable housing (section 403) and an authorization to provide increased administrative fees for high-performing PHAs in the voucher program (section 405). These proposals would augment steps HUD and Congress already have taken or are taking to accomplish this goal, including increased flexibility for PHAs to set payment standards; increased fair market rents to the 50<sup>th</sup> percentile of rentals for units in satisfactory condition in some areas; initiation of the Section 8 Management Assessment Program (SEMAP), a management report card with consequences; training of PHA staff; award of new incremental vouchers only to PHAs with high usage of current resources;

and reallocation of vouchers from PHAs that have not been able to use them to PHAs that need and can use them.

HUD supports the direction of these new proposals, but has suggestions. HUD supports the increase in allowable family rent to forty percent of gross income but believes PHAs also need flexibility to address compelling situations—for example, where a family already in the program would like to move to a significantly less expensive unit, but cannot do so because the family still would be paying more than the limit.

HUD would consider allowing the use of some program funds to help increase voucher utilization for PHAs that are effectively using their administrative fees solely for the section 8 program. However, at the proposed maximum limit of 5 percent, this could translate into \$500 million, which would affect the administration of the core program. Any such authorization should be substantially narrower and structured to include appropriate oversight. With respect to administrative fees, HUD recommends that it be given broader authority not just to provide a bonus for high performers, but also to restructure the fees to promote performance in general and the accomplishment of specific program priorities, such as families' movement to self-sufficiency and homeownership.

The bill contains several provisions regarding enhanced vouchers. HUD supports clarification of the obligation of owners to take enhanced vouchers in projects where tenants are eligible for them (section 406). With respect to the same section's protections for overhoused families, HUD recommends that such families be treated in the same manner as overhoused families are treated now in the voucher program (basically, the enhanced voucher families could choose to stay in the oversized unit, but would be subsidized at the level they would receive if they were in a unit of appropriate size at the property).

The bill also contains a provision to provide for higher contract rents upon the renewal of moderate rehabilitation contracts (section 408). HUD agrees that the current-law restriction of such rents to the lower of comparable rents, current rents plus an operating cost adjustment or fair market rents is unnecessarily restrictive. The bill's proposed solution, however, will pose administrative challenges for PHAs not accustomed to evaluating budget-based rents and may go further than is needed to preserve assisted units.

You asked me to discuss the future impact of Section 8 contract renewals on the HUD budget. Renewals for both tenant-based and project-based Section 8 rose from \$14.3 billion in fiscal 2001 to a requested \$16.9 billion for fiscal 2003, and are projected to increase to over \$20 billion in several more years. This is a result of the program serving more families, some program changes that have increased per-unit costs, such as increases in fair market rents, and conversion over time of all contracts to one-year contracts, so that all contracts must have new budget authority each year.

## Title V, Public Housing

I am excited that Title V contains the Administration's Public Housing Reinvestment Initiative (section 505), because that initiative can provide a new and effective means of improving public housing. Recent HUD studies indicate that the backlog of public housing capital needs is in the \$20 billion range and that new needs accrue at about two billion dollars annually. Strides have been made in recent years in public housing communities, but appropriations for the Capital Fund at two to three billion dollars annually will allow only slow progress. The Public Housing Reinvestment Initiative provides a means of addressing this problem sooner with the dollars available.

The Public Housing Reinvestment Initiative allows PHAs that choose to participate to trade their public housing subsidies for project-based vouchers on a property-by-property basis. PHAs then could borrow money for capital improvements on the same individual property basis now used for Section 8 developments and multifamily housing generally. In addition to leveraging private capital, this action is likely to lead to more accountable property and financial management because management must be done at the individual property level. Tenants generally would be protected in the same manner as in public housing. PHAs could use the project-based vouchers on current sites, or on replacement sites where appropriate.

The Public Housing Reinvestment Initiative can be a powerful tool for the prompt rehabilitation of housing that otherwise would languish for years. For example, a development's capital needs of four million dollars that otherwise would be impossible to address from available Capital Fund moneys can be addressed with debt service payments on a seven percent, thirty-year loan of about \$335,000 per year. PHAs could undertake individual transactions as long as the monthly expenses for operations, debt service and a capital replacement reserve did not exceed the lower of market rents or the applicable Section 8 payment standard. If the approvable rent levels were too low to finance all the necessary capital work—for example, if the PHA only could raise \$20,000 per unit at approvable rent levels but the development needed \$30,000 per unit in capital work—the PHA could choose to supplement the project-based vouchers with an up-front contribution from the Capital Fund or other sources.

The bill contains a proposal to suspend the PHA Plan requirement for three years for the smallest PHAs up to 100 units (section 504). Current law requires annual PHA Plans with eighteen listed elements, but also allows HUD to streamline PHA Plans for small, high-performing and Section 8-only PHAs. The extent to which the PHA Plan requirement has resulted in useful strategic planning has varied greatly from locality to locality. In many localities, the Resident Advisory Board participation requirement has resulted in better access for public housing residents and Section 8 families to make their views known to PHA decision-makers.

The usefulness of the PHA Plan relative to the PHAs' ability to carry it out with limited staff resources, however, appears to drop dramatically for small PHAs. HUD has

provided some streamlining of PHA Plan requirements for these PHAs, but I believe we need to go further and HUD is developing a regulation that will accomplish this. The bill's proposal is certainly along these lines, although we may be able to accomplish the necessary streamlining through regulation without disturbing the current resident and public process to the same extent. I want to thank Congressman Bereuter's for his leadership on this issue.

While HUD has differentiated between small and larger PHAs in PHA Plan processing, it has not done this to enough of an extent in its other programs. Small PHAs with 250 or fewer units constitute 75 percent of all PHAs, but operate only fifteen percent of the units. From a risk management standpoint, it is unnecessary to impose the same regulatory burdens on these PHAs as on larger ones. The new regulation I have mentioned will recognize that in several program areas.

The bill would require HUD to develop and test a third-party system for public housing performance evaluation, through an outside contractor (section 503). This year, HUD has implemented a binding public housing management assessment that contains an independent inspection of physical conditions. However, experience with the Public Housing Assessment System (PHAS) during its extended advisory period raised so many questions regarding the adequacy of its physical inspection and finance components that HUD substantially simplified and in some respects had to pare back these components prior to implementation.

HUD is committed to working with public housing groups toward how best to revise the system. It may be that a third-party system could accomplish the same tasks better and provide a broader assessment that would be more readily recognized and accepted as appropriate by all parties concerned. The work being done by others such as public housing industry groups and private companies to develop such systems is promising, and HUD may be able to take account of this work and the views of resident representatives and others to develop an improved system expeditiously.

Section 501 of the bill would allow HUD to waive the requirement that PHAs have a resident on the board of commissioners in particular States, where reasonable efforts are being made to take the necessary legislative or regulatory action so that this can occur. Congress has recognized problems in the implementation of the resident on the board requirement in several States, has exempted housing authorities in three States from the requirement for fiscal 2002 and has required HUD to provide a report by May 30, 2002 regarding the impediments to its implementation and related matters. Thus, further legislative action seems appropriate. The proposed legislation, however, would allow for permanent waivers and would not result in having residents on boards of commissioners promptly in the affected States. A better solution may be to provide for appointment by the chief executive officer of the PHA's jurisdiction of an additional board member to fulfill the resident on the board requirement, for a temporary period such as three years. This would give the noncompliant States more time to complete any necessary actions so that residents could be appointed to PHA boards as federal law

requires, but the relief would be temporary and promptly would result in residents serving on boards of commissioners.

The bill provides for a two-year reauthorization of HOPE VI and for measures to ensure that a broader group of communities in terms of size and location have a realistic possibility of receiving a HOPE VI award. HUD supports both reauthorization and the general effort to promote broad program participation. More discussion of concepts in regard to reauthorization of HOPE VI will be constructive. A report on HOPE VI lessons learned is due to Congress on June 15, 2002.

#### Title VII, Native American Housing

Title VII reauthorizes both the Native American Block Grant Program and its related loan guarantee program. HUD believes that these programs continue to hold much promise and supports the reauthorization of both programs.

I look forward to working closely with the Committee as you continue to develop this important legislation for the improvement of the voucher, public housing and Native American housing programs. Please call on me and my staff for any assistance we can provide.