

**WRITTEN STATEMENT OF
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**BEFORE THE
UNITED STATES HOUSE
COMMITTEE ON FINANCIAL SERVICES**

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INTRODUCTION

Chairman Oxley, Ranking Member Frank, Distinguished Members of the Committee:

Thank you for the invitation to join you this morning. I am pleased to appear before the committee to discuss H.R. 1999, entitled the State and Local Housing Flexibility Act of 2005. I would like to thank Congressman Miller and his cosponsors on this Committee – Representatives Feeney, Harris, King, and Renzi – for their leadership in introducing H.R. 1999, authorizing legislation to implement this reform.

We believe that this legislation will improve the Department's ability to serve low income families through the rent and flexible voucher reform, while at the same time giving certain public housing authorities the opportunity to become real entrepreneurs in their own communities through the Moving to Work Program.

Each of these three initiatives – the flexible voucher reform, rent reform, and Moving to Work – together represent an engine for positive reform that is desperately needed in the Section 8 program.

The Housing Choice Voucher Program, authorized under Section 8 of the 1937 U.S. Housing Act, is commonly referred to as the "Section 8" program. Therefore, for the purposes of this testimony, all references to "Section 8" refer to the Housing Choice Voucher Program.

Under Section 8, HUD provides approximately 2 million low-income families with subsidies to afford decent rental housing in the private market. I cannot overstate the importance of Section 8 to improving the lives of many of this nation's neediest families. As a compassionate nation, we have an obligation to provide assistance for those citizens who truly need our help.

Yet, the program faces serious challenges. In recent years, Section 8 costs have spiraled out of control and positive results have been overshadowed by lingering doubts about the program's effectiveness and future viability. With Congressional support, however, I am hopeful that we can preserve – and strengthen – the program.

EXPERIENCE

My familiarity with the Section 8 program dates back to 1981, when I was hired as Executive Director of the St. Louis (Missouri) Public Housing Authority. I was appointed in 1987 to direct the Washington, DC, Department of Public and Assisted Housing – the city's equivalent of a public housing authority (PHA). In 1989, I began a seven-year tenure as the President and CEO of the Dallas Housing Authority.

I am the first Secretary in the history of HUD to have run a PHA.

My point is that I bring more than more than 25 years of direct experience in housing – much of it gained in the public housing arena – to my job as Secretary. I fully understand the complexities and importance of the Section 8 program. I support its mission. Yet, my expertise allows me to tell you without hesitation that the Section 8 program is fundamentally different today than it was 20, 10, and even less than five years ago, and that the transformation has put Section 8 at risk.

HISTORY

The modern-day equivalent of Section 8 was established 35 years ago, when HUD created the Housing Allowance Experiment, the Nation's first program of tenant-based rental housing assistance and the precursor to the Section 8 tenant-based housing assistance program.

The Housing Allowance Experiment was the direct result of the Housing and Urban Development Act of 1970, through which Congress directed HUD to "undertake on an experimental basis a program to demonstrate the feasibility of providing families of low income with housing allowances to assist them in obtaining rental housing of their choice in existing standard housing units."

By 1974, Congress had become convinced that tenant-based housing assistance was a viable alternative to public housing. In the Housing and Community Development Act of 1974, Congress amended the Housing Act of 1937 by adding Section 8, which created a tenant-based housing assistance program, commonly referred to at the time as "Section 8 Existing." This name differentiated it from "Section 8 New Construction" another portion of the Section 8 program that was used to subsidize construction or substantial rehabilitation of new privately owned subsidized housing by providing long-term rent subsidies attached to the property.

The Section 8 Existing program served lower-income families, introduced the concept of Fair Market Rents (FMRs), and permitted exception rents. The tenant payment was set at 15 or 25 percent of income, taking into consideration the income of the family, the number of minor children in the household, and medical or other unusual expenses. The income contribution of tenants was later raised to 30 percent of income. Generally, families could not rent above the FMR established by HUD for the locality. Thirty percent of those families assisted had to be very low-income families at the time of initial renting of a unit. Properties had to be maintained at Housing Quality Standards set by the Department.

By 1983, Congress accepted HUD's proposal that more flexibility in tenant-based assistance was appropriate and created the Voucher Demonstration in the Housing and Urban-Rural Recovery Act of 1983. In the Housing and Community Development Act of 1987, Congress replaced the voucher demonstration with a permanent voucher program.

To simplify the program for the Department, local administrators, and participating families, the Department and Congress reached agreement in 1998 to streamline the Section 8 certificate and voucher programs into a single program with a single set of regulations. No longer would two similar programs operate side-by-side under two different sets of rules. The 1998 Quality Housing and Work Responsibility Act, otherwise known as the 1998 Reform Act, authorized this merger.

The final Act was the result of three years' worth of debate and discussion between both chambers of Congress, both political parties, and the Clinton Administration. Although there was general agreement that reform was vital, widespread disagreement persisted as to the substance of the legislation. However, Congress was able to craft a bill after considerable dialogue, negotiation, and compromise; and the final legislation passed almost unanimously.

The merged program retained many features of the previous voucher program. For example, the Act continued to permit families to rent above the payment standard

(but subject to a limitation that the family cannot pay more than 40 percent of their income for rent) in the first year, retained Housing Quality Standards, and permitted portability to any jurisdiction administering a Section 8 program.

While the goals of streamlining the programs were admirable, enough time has now elapsed since 1998 that we can – and must – determine if the program is working as intended and whether further reforms are now necessary.

I believe we can now state without equivocation that the Section 8 program faces serious challenges, and has been overwhelmed with unintended consequences. With each passing year these consequences have been magnified. To continue serving those in need, and to help families become self-sufficient, Section 8 reform is desperately needed.

Until last year, annual funding under the Section 8 program was appropriated for a specific number of vouchers. These funds were then distributed to PHAs based on the number of vouchers they awarded, at whatever costs the PHAs incurred.

For FY 2005, Congress converted this “unit-based” allocation system to a “budget-based” system. This made sense, and the Administration encouraged and strongly supported this decision. For the budget-based system to work, however, program requirements need to be simplified and PHAs need to be provided with greater flexibility.

THE CASE FOR REFORM

Congress has taken a first step toward reform by changing the way funds are appropriated for the program, thereby controlling costs that have spiraled upward without a corresponding increase in benefits or number of people served. To complete the reform process, changes are needed in the Section 8 program that will: (1) give local public housing authorities (PHAs) greater decision-making flexibility combined with performance incentives to maximize the use of appropriated dollars; (2) encourage PHAs to use assistance to families as “hand up” for families moving toward self-sufficiency; and (3) further streamlining the program by eliminating overly prescriptive and complex requirements that do not increase program benefits.

The most telling indicator of Section 8’s structural challenges has been the program’s rising costs. The program’s rising costs are in part attributable to policies enacted in the 1998 Reform Act.

1. In 1998, the Housing Certificate Fund (both project- and tenant-based Section 8 spending) consumed 36 percent of the HUD budget. By the 2005 appropriation, that had risen to 57 percent.

2. The 1998 Reform Act gave PHAs greater control over local payment standards, allowing them to set the standards between 90 and 110 percent of the local FMR. This flexibility, without proper checks and balances, created an incentive for PHAs to raise the payment standard because HUD paid the full cost. In December 2000, the average PHA payment standard was \$648, or 95 percent of the FMR. By December 2004, the average PHA payment standard was \$889, which was equivalent to 104 percent of FMR. As a consequence, the average PHA payment is now approaching 110 percent of the FMR, rather than the intended average of 100 percent.

3. During this time, the percentage of program participants with payment standards between 101 and 110 percent of FMR rose from 25 percent to 49 percent of all participants. This 37 percent nationwide average increase in payment standards between December 2000 and December 2004 is not consistent with the much lower 13 percent nationwide average increase in gross rents (as measured by Consumer Price Index) during this same period.

4. The gross rent allowed for program units increased by 28 percent, from \$652 in 2000 to \$832 in 2004.

The end result was a 36 percent increase in the housing assistance payment (HAP), the amount the Federal government pays. The average HAP has increased from \$411 per household per month in 2000 to \$557 in 2004, a difference that amounts to more than \$3.3 billion annually. This cost increase has occurred even as markets across the country exhibited record high vacancy rates and PHAs from across the country reported to HUD that their rental markets were soft.

Even without these budgetary pressures, however, I believe serious restructuring of Section 8 would be necessary to improve the program's results for those it serves.

The program currently doesn't provide families with the right incentives. The Federal government has allowed families who declare no income to live rent-free *and* to receive a check to pay for utilities. There is little incentive for families to seek housing outside of the voucher program; in fact, there is a disincentive to make positive life decisions.

That is in part because since 1998 PHAs have been forced to give three out of every four vouchers to families with little or no income. To be precise, the 1998 statute requires that 75 percent of all vouchers be issued to families making 30 percent or less of area median income. This has restricted a PHA's ability to address the needs of other families who, despite having slightly higher incomes, might benefit more from housing assistance, including many working families.

This requirement has shut the door to voucher assistance on low-income individuals who work hard to raise their income, and then find themselves competing with those that earn slightly less. They are likely to remain too poor to afford a home, yet if they are outside the targeted group, they will be relegated to lengthy waiting lists with the ever-diminishing likelihood of receiving a voucher. Thus, housing agencies are forced to discriminate against those moving up the economic ladder.

It has also led to a higher rate of subsidy per family and created a system where families are more likely to stay in the program longer. We believe that since 1998, the fastest-growing segment of voucher recipients has been families that have been in the program for longer than five years. The current program design has made housing assistance a permanent support for some families. Moreover, results from the welfare-to-work voucher demonstration indicate that providing vouchers to welfare recipients may have contributed to a short-term reduction in earnings and employment, and an increase in welfare dependence. Rather than a "hand up," Section 8 Housing Vouchers have turned into a "hand out."

The problems do not end there. The verification of household income, the determination of tenant contribution to rent, and countless other requirements have become so complex that it is difficult to perform these functions accurately. Section 8 currently has separate rules for more than a dozen different types of vouchers, along

with 120 pages of regulations that PHAs are required to navigate. It is far more time-consuming to determine the right rent contribution for a low-income household than to calculate the Federal income tax for that household.

PROPOSED REFORMS

Over the past two years, HUD has engaged in numerous discussions with PHA directors, housing policy experts, representatives of the housing industry, Members of Congress, and other interested parties on how best to address the challenges facing the Section 8 program.

The result of these policy discussions is the proposed State and Local Housing Flexibility Act of 2005, incorporating the Flexible Voucher Program (FVP, in Title 1 of HR 1999), which the Administration first proposed in its FY 2005 Budget request, and now has re-proposed, with a number of changes, for FY 2006. The Administration is convinced that the Flexible Voucher Program will enable PHAs to better serve low-income families, reduce the waiting lists for vouchers, and move more working families toward self-sufficiency and homeownership. It will put more decision making at the local level, allow PHAs to run a more streamlined program while requiring them to control costs, and to encourage them to give a "hand up" in order to help more needy families. As more families move up to self-sufficiency, the duration of assistance will drop and the same dollars can be used to help additional families over time. While giving PHAs additional flexibility, the reforms also would give them new incentives to set and meet local performance goals, including goals appropriate for special populations such as the elderly and the disabled. The result, we think, is that PHAs will direct vouchers to those most likely to benefit from assistance.

HR 1999 also takes the initiative to provide long awaited rent simplification relief to PHAs operating public housing programs in Title II. The current statutory and corresponding regulatory requirements governing calculation of income and rent are enormously cumbersome and difficult to administer.

Over time the process has become ever more complex so that one study indicated it would consume more than 6 hours of PHA staff time to correctly conduct the required tenant interview and income calculation process. Rent simplification is a logical result of the President's Management Initiative, Rental Housing Integrity Improvement Project (RHIIIP), to reduce errors in rent calculation and improper payments, caused in part by the complexity of the rental determination requirements.

The Public Housing Rent Flexibility and Simplification proposal (Title II) provides PHAs with the ability to make local rent determinations that will best suit their needs. It provides the same menu of rent options provided by Title I and applies this to the public housing community.

Under this title, PHAs will have the option to keep existing rent structures or to make changes that better serve their populations. It removes all deductions and exclusions from the calculation of income, the cause for much of the current law's complexity, but it retains the current public housing targeting requirement of 40% of the tenants below 30% of area median income. Under the proposed reforms rent structures could be more transparent, equitable and easily administered.

It reiterates the protections afforded elderly and disabled and applies the same review requirements, and finally, the legislation simplifies the administration of escrow savings accounts and encourages their use to promote savings.

Finally, the State and Local Housing Flexibility Act provides in Title III for an authorized Moving to Work Program.

Essentially the legislation makes permanent the highly successful Moving to Work Demonstration. It opens up the benefits of flexibility and fungibility to all PHAs that have at least 500 public housing units and 500 Section 8 units AND are also high-performing PHAs, as well as all participants of the Moving to Work Demonstration. We have heard the good things these participants are saying about Moving to Work and agree that this program should be extended and opened to even more candidates.

Flexibility works and it is amply shown by the innovative programs PHAs develop when they are not forced to move lock step according to government mandates. Under this program, current MTW PHAs with contracts expiring in the near future will be given the option to extend their existing contracts for a period of three years or to enter the Program immediately. Others can opt into the program at the end of their normal contract term if they are high-performing at that time.

MTW participants may combine public housing operating and capital funds with their voucher assistance to provide housing assistance to low-income families and services to facilitate the transition to work.

The MTW provisions require HUD to set forth standards to measure PHA performance within two years of passage. Until then, a MTW participant's performance would be assessed under applicable assessment systems. New standards may include: moving assisted low-income families to economic self-sufficiency; reducing the per-family cost of providing housing assistance; expanding housing choices for low-income families; improving program management; or increasing the number of homeownership opportunities for low-income families.

Returning to Section 8 and Title I, PHAs would continue to receive a set dollar amount as in 2005, but would have greater freedom to adjust the program to the unique and changing needs of their communities, including the ability to set their own subsidy levels based on local market conditions rather than Washington-determined rents. This would allow PHAs to serve as many families as possible within their grant amount, rather than being held to a specific number of vouchers.

The FVP would allow local PHAs to determine the appropriate mix of low-income families to serve by targeting 90 percent of all assistance to those earning at or below 60 percent of Area Median Income – the same targeting specified in the HOME Investment Partnerships and Low Income Housing Tax Credit programs.

The proposal would allow PHAs to create incentives for voucher recipients to find work, or improve their job situation. For example, PHAs would be allowed to establish time limits of not less than five years for able-bodied families. This would be an option, not a federal mandate. Disabled individuals and the elderly would be exempt from any time limits.

The proposal would allow PHAs to design their own tenant rent policies and simplify rent calculations, thereby reducing the number of errors that are made. The FVP would eliminate many of the complex forms that are currently required to comply

with program rules, saving both time and money. The proposal would significantly reduce unnecessary administrative burdens on PHAs in the area of annual unit inspections, annual family income re-certifications, rent calculations, portability, and program eligibility.

These improvements would provide a more efficient and effective housing voucher program, which would help low-income families obtain decent, affordable housing and thereby achieve their personal goals.

The FVP would also create new options for families pursuing homeownership by: (1) allowing a PHA to provide monthly principal and interest subsidy; (2) allowing a PHA to provide a one-time downpayment grant of up to \$10,000; (3) allow qualified families to work with homebuilders to pledge their homeownership voucher assistance in advance of construction; and (4) provide PHAs with a special administrative fee for each new homeownership closing.

Finally, the FVP would limit the ability of currently designated "troubled" agencies to implement important flexibilities without HUD approval, and gives HUD the ability to step in and take quick action in cases of PHAs that fail to properly manage the program.

As with the 1998 Reform Act, the FVP retains the strengths of our nation's voucher program. FVP would continue to: serve only low-income families with non-luxury housing; permit families to rent above the payment standard; retain Housing Quality Standards and; permit portability in a more equitable manner that acknowledges resource limitations.

The FVP provides a reasonable, responsible, and fair approach to maintaining the housing voucher program into the future. Once the FVP is in place, Section 8 will be more effective, efficient, and flexible, but more importantly, it will be better able to meet the needs of the low-income families that depend upon it.

CONCLUSION

Federal tenant-based housing assistance has grown from serving 30,000 households through the Experimental Housing Allowance Program to serving 2 million families today through the Section 8 program. As the program has grown in size and importance, it has also gained acceptance as an appropriate method for providing housing assistance to very low-income families. The 35-year history of tenant-based housing subsidy for low-income renters has been one of growth, refinement, and responsiveness in meeting the needs of our nation's low-income families and individuals.

It has been a history of change.

There is no question that change is urgently needed once again. It must happen soon if we are to continue serving those families that need Federal help, and continue providing for individuals who seek the American dream of self-sufficiency.

I said at the outset, and I should say so again: taken together, these three initiatives of Flexible Voucher Reform, Rent Reform and Moving to Work, embodied in HR 1999, can serve as the engine for reform that is genuinely necessary. This committee has shown leadership, equal to that of the sponsors of the bill, which will go a long way to moving this important debate forward.

I look forward to the work ahead, as we seek to improve our nation's largest rental assistance program. I would like to thank all the members of this Committee for your support of our efforts at HUD. I welcome your guidance as we continue our work together.

Thank you.