



Public Housing Authorities Directors Association

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Testimony of

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before the

House Financial Services Committee

Subcommittee on Housing and Community Opportunity

“The Section 8 Savings Act of 2011”

Rayburn House Office Building
Room 2128

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9:30 a.m.

Chairperson Biggert, Ranking Member Gutierrez and Subcommittee members, I appreciate this opportunity to offer testimony concerning the Section 8 Savings Act of 2011 (SESA) on behalf of the Public Housing Authorities Executive Directors Association. I am Curt Hiebert, PHADA's Immediate Past President and the Chief Executive Officer of the Keene (NH) Housing Authority (KHA).

PHADA was founded in 1979 and represents over 1,900 housing authority chief administrative officers. A significant proportion of PHADA members administer small or medium sized agencies that operate a mixture of assisted housing programs. Some operate public housing, some the Housing Choice Voucher program, 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.

The KHA was one of the original 24 Moving to Work (MTW) Demonstration sites, and continues to operate its entire Public Housing and Section 8 programs under that program. It has made dramatic differences in our community. Our participation in MTW has allowed us, our residents and our community to develop a program that provides for the neediest of our region, providing stability to those on fixed incomes and a system that encourages families to move towards self-reliance.

In 1999, 47% of the heads of household at the KHA were working full time. Last year, 64% were working full time. In that same period of time, average income for families increased by over 30%. In part, this was because our system did not discourage increases in income, but actually rewarded it. Our system of rent steps does not penalize rises in income, but instead our program encourages job skills, education, financial competency and ambition.

At the same time, the neediest are protected by our "Safety Net" provisions in our program. Our program will NOT work everywhere, but the key is that by utilizing the flexibility contained in MTW, we were able to make a program that is good for Keene, New Hampshire, our residents and our stakeholders.

Concerning SESA, as with past bills, we believe that SESA includes elements helpful to housing authorities, but also includes problematic elements. However, the budget environment has changed dramatically in the past year, and I believe new fiscal constraints radically shift the issues authorizing legislation such as SESA must address.

While deregulation, local flexibility and reductions in administrative overhead have been attractive alternatives in the past, they have become matters affecting preservation of the inventory of deeply assisted housing programs as well as the survival of and maintenance of capacities at local housing authorities. Federal interest in maintaining affordable housing initiatives in

states and localities drive PHADA's efforts to simplify and reform federal housing programs with an eye to cost reduction and revenue generation. In addition to elements of SESA, PHADA urges the committee to consider PHADA's and NAHRO's Small Housing Authority Reform Proposal (SHARP) and expansion of the Moving to Work (MTW) demonstration for inclusion in authorizing legislation.

The Section Eight Savings Act

Inspections:

PHADA supports discretion for HAs to begin short term housing assistance while owners complete repairs to non-life-threatening HQS deficiencies. The provision should benefit participants' and owners. PHADA also supports HA discretion to conduct HQS inspections every 2 years, targeting inspection resources on housing and owners most prone to HQS difficulties. While this discretion may allow some HAs to reduce overhead, many PHADA members indicate that such discretion will not result in significant burden reductions while preserving the quality of subsidized housing. Defining other federal, state or local housing assistance program housing quality inspections as meeting the Section 8 inspection requirement may avoid duplicative and wasteful inspections and help reduce the program's administrative burden.

PHADA understands the intentions of provisions concerning abatement of Housing Assistance Payments (HAP) when HQS deficiencies in HCV subsidized housing are not remedied. But, these new provisions may result in vouchers remaining unutilized for the better part of a year while landlords attempt to affect repairs and participants search for alternative housing. This abatement of HAP may also lower average voucher costs, reducing an HA's eligibility for renewal funding in the subsequent year.

PHADA also appreciates the intentions of providing relocation assistance. However these resources could be used to increase voucher utilization. Relocation also introduces complexities and the risk that HAs providing relocation support to participants will lose renewal funding in a subsequent year due to declining average costs or unit months leased.

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 re-certifications that are currently subject to local discretion.

Some new income exclusions and deductions will constrain HAs' rent revenues. In some years, HAs have been able to collect only 88 percent of the federal Operating Subsidy due while most HAs are able to collect over 95 percent of rents receivable. In some years, moving public housing revenue from rent to Operating Subsidy has had the effect of reducing that revenue by approximately 10 percent.

PHADA supports a demonstration of alternative rent structures. An investigation of the real impacts of these alternatives on households may inform the longstanding policy debate over rents in deeply assisted housing.

Use of Voucher Funds

Inclusion of renewal funding protocols in authorizing legislation is helpful, and PHADA supports provisions allowing for some overleasing. Provision for adequate program reserves in excess of 6 percent of annual allocation will also help agencies weather unanticipated changes in costs and voucher turnover.

Family Self Sufficiency

PHADA supports a voluntary Family Self Sufficiency Program also included in the PHADA and NAHRO SHARP proposal discussed below. Expansion of the program to include multifamily properties is a commendable goal. However, PHADA is concerned with the impact of such expansion on the resources available to support FSS coordinators, given the severe budget constraints assisted housing programs will face in coming years.

Questions Posed by the Subcommittee:

Uses of Administrative Fees to Operate the Voucher Program:

The Housing Choice Voucher program is administratively complex. Programs, program sponsors and the jurisdictions they serve are diverse, and their uses of administrative fees for program operations reflect this complexity and diversity. HUD has used \$2 million to engage ABT Associates to conduct a study of Housing Choice Voucher administrative costs and will conduct that study over the coming 2 years. Part of that research involves a time and motion study of activities involved in administering an HCV program. The department has identified approximately 40 tasks that it hopes to assess in this process.

Several categories of program administrative activities consuming administrative resources include:

1. Inspections,
2. Eligibility and recertification.
3. Rent reasonableness,
4. Landlord outreach,

5. Information technology, and
4. Monitoring utilization

Each of these categories may be streamlined in some way, but HUD's fee study will probably identify opportunities based on study observations.

Impacts of SESA Provisions on Administrative Burdens:

SESA is a complex bill. It includes provisions that both reduce and increase administrative burdens. Changes to inspection and recertification requirements and changes to the standards for medical and child care deductions all may reduce burdens associated with assuring housing quality and calculating participants' income and rent. Changes concerning suspension and abatement of housing assistance payments and provisions for relocation of participants where housing fails to meet quality standards tend to increase administrative burdens. On the whole PHADA believes that SESA offers modest relief to assisted housing program sponsors. With current and future funding constraints in mind, PHADA believes that the health of these programs will depend on more ambitious efforts to reform housing programs such as PHADA and NAHRO's SHARP proposal and an expansion of MTW.

Family Self-Sufficiency (FSS) Program Effectiveness and Impacts of Proposed Reforms:

Some PHADA members report operating very effective FSS programs, but the quality of outcomes is very dependent on a large number of variables not under agencies' control. PHADA's reactions to changes in the FSS program are described above. In general, we appreciate inclusion of a concept from PHADA's and NAHRO's SHARP proposal that FSS programs ought to be voluntary. Although the existing FSS program has benefited a number of individual households, it is not clear that the program has had broad impact on the general population of assisted households to date. Marginal impacts of the changes proposed in SESA will become apparent over time after enactment.

Moving-to-Work (MTW) Program Impacts:

PHADA believes that MTW has offered participating agencies the most powerful tool to improve provision of affordable housing and services to participating households and applicants in their jurisdictions in the last decade or two. What has happened in Chicago, for instance, is nothing less than revolutionary. By 2009, the Chicago Housing Authority has used its MTW discretion to renovate or replace over 17,000 public housing units of a planned renovation of 25,000 units.

The Urban Institute prepared an assessment of the program several years ago and found that, although the program was not implemented to permit a robust evaluation of outcomes, participating agencies used their discretion to try a

number of novel policy alternatives and that it found no evidence that residents were harmed by these initiatives. More recently, HUD has published a report by its Office of Policy Development and Research that found that MTW had been an effective platform for policy experimentation that, with some modification (particularly concerning evaluation), deserves to be expanded to double its current size.

MTW has enabled several very large housing authorities to transform their stock of assisted housing and offer residents significant improvements in their living environments. The Atlanta Housing Authority has completed development of 3,742 units in mixed income mixed finance projects.

My smaller agency has used its MTW discretion to implement rent and subsidy systems that have encouraged families to gain employment and increase earnings. We have also assured the long term viability of our assisted housing stock by converting that stock to project based assistance, using the new revenue stream to leverage funds for recapitalization. In the process we have significantly expanded the assisted housing available in our jurisdiction.

The Charlotte Housing Authority has established a goal of expanding the assisted housing stock by 1,000 units in 10 years. In its first year of implementation in 2009, it successfully developed 110 additional assisted housing units. The Lawrence Douglas Housing Authority used MTW to merge its tenant based and project based programs to increase program efficiency. The King County Housing Authority reduced the frequency of its housing inspections for landlords with a history of successful inspections, flexibility that has now made its way into proposed legislation such as SESA. The Cambridge Housing Authority modified its rent structure, implementing a tiered system with a \$50 minimum rent. A study of Cambridge by Quadel Consulting Corporation found that the new rent system did not adversely affect residents' ability to pay rent and that many residents showed significant increases in earned income.

Comments on HUD's Methodology for Setting Fair Market Rents (FMRs) and Challenges to Participants over Publication date of HUD Program Income Limits?

The HCV program will always require limits on the cost of housing occupied by participants, those limits will always be subject to some debate, and will always constrain participants housing choices. Currently, the program includes a number of mechanisms to provide some flexibility to the range of housing available to participants (e.g. payment standards at 110 percent of FMRs, exception payment standard at 120 percent of FMRs, the possibility to set FMRs at the 50th percentile of the local rental housing market rather than the 40th percentile). Even with these flexibilities, some programs in very tight housing markets suffer from low success rates (the proportion of voucher holders who end up participating in the program).

HUD has embarked on a demonstration of Small Area FMRs that will set FMRs for Zip Code Tabulation Areas (ZCTAs)(zip codes) rather than for Core Based Statistical Areas (CBSAs) in metropolitan areas. Some year ago, the department changed from using Metropolitan Statistical Areas (MSAs) for FMR setting to the much larger CBSAs that include suburban and rural counties as well as urban areas. That change risked depressing FMRs with the inclusion of counties remote from an area's urban core. PHADA fears that small area FMRs based on zip codes (ZCTAs) will substantially increase the administrative burden of administering the HCV program and will risk inflating FMRs and HCV costs much more rapidly. Dallas, TX where HUD has begun this demonstration has changed from using one set of FMRs for the metropolitan area to instead using FMRs and payment standards for 88 zip codes.

The Small Housing Authority Reform Proposal (SHARP)

PHADA and NAHRO have collaborated to propose significant reforms that would benefit approximately 80 percent of housing authorities that operate approximately 20 percent of public housing and Housing Choice Vouchers and receive only approximately 10 percent of federal funding for those programs. The associations have prepared legislative language entitled "The Small Public Housing Authority Opportunity Act," that would implement proposals to:

1. Simplify HUD's oversight of small housing authorities under the Public Housing Authority Assessment System (PHAS) and the Section 8 Management Assessment Program (SEMAP),
2. Provide administrative and regulatory relief for small housing authorities,
3. Involve some small housing agencies in a demonstration of alternative rent structures for public housing and Housing Choice Vouchers, and
4. Provide small agencies with new development and operating opportunities that can reduce costs, increase revenues and improve service delivery for affordable housing participants, residents and applicants.

The HUD commissioned report by IBM in 2008 entitled, "Rebalancing HUD's Oversight and Small PHAs' Regulatory Burdens." Among its conclusions and recommendations, the study indicated that, "...HUD's level of effort for small PHAs is grossly disproportionate to the level of risk, total units involved, and subsidy dollar volume." The report urged exactly the kinds of initiatives PHADA and NAHRO have included in SHARP.

Oversight Reform

SHARP proposes to simplify PHAS and SEMAP by significantly reducing the number of indicators monitored by HUD and set standards for those indicators to assure intervention when performance becomes problematic but avoid unnecessary agency reporting and HUD oversight. PHAS would include 3 indicators for physical, financial and management areas, and SEMAP would include 2 indicators for inspections and utilization of vouchers or funds. The reform would ease burdens on agencies by significantly reducing the number of dimensions reported to HUD, and ease burdens for HUD by streamlining the information the department monitors concerning small agency performance.

Administrative and Regulatory Relief

SHARP will conform some standards for small agencies to those imposed on owners of properties monitored by HUD's Office of Housing. The proposal includes 7 specific administrative reforms that include

- Conforming annual plan and Section 3 requirements for small agencies to requirements imposed by HUD on property owners through the Office of Housing,
- Changing Community Service and Family Self Sufficiency from mandatory to voluntary initiatives for small agencies,
- Eliminating requirements for HUD approval of prevailing wage rates and for environmental reviews on projects valued at less than \$100,000.

Rent Reform

SHARP authorizes the Secretary to conduct a demonstration and evaluation of 3 alternative rent reforms, tiered rents similar to those used in Low Income Housing Tax Credit subsidized properties, rents based on charging a proportion of gross income for rent, and the current rent structure. There has been debate about the impacts of changing rent structures on assisted households. SHARP would evaluate outcomes of a demonstration to identify potential benefits and pitfalls associated with different rent structures.

Management and Development Opportunities

SHARP authorizes 5 specific reforms that provide small agencies with additional flexibility and new opportunities to serve their communities.

- The proposal permits the fungibility of appropriations from Section 8(o), Section 9(d) and Section 9(e) of the Housing Act of 1937,
- The proposal relieves projects worth less than \$250,000 from complying with Davis Bacon wage standards,
- The proposal authorizes conversion of public housing to Project Based Vouchers or Project Based Assistance, raises the proportion of an agency's HCV

inventory that can be project based to 50 percent, and authorizes the release of encumbrances on converted public housing property,

- The proposal authorizes a streamlined grant for small agency development and redevelopment and earmarks 15 percent of HOPE VI appropriations for that purpose, and
- The proposal encourages energy conserving capital investment through the formula used to fund public housing utility expenses.

SHARP promises to reduce small agencies' administrative burden, offers them opportunities for additional revenue, offers them new options to recapitalize their public housing stock, and offers HUD significant reductions in oversight requirements.

Moving to Work (MTW) Expansion:

There have been many proposals to expand the MTW demonstration from the current 35 agencies to 60, 80, 250 and even an unlimited number of agencies. Although details among proposals have differed, there appears to be some consensus to expand the MTW demonstration to allow more local agencies flexibility to better meet the housing needs in their communities.

In 2006, the Moving to Work Charter Act was introduced in the Senate. The bill would have provided permanent authorization for MTW and would have expanded the number of MTW agencies to 250 non-troubled HAs. Several versions of the Section 8 Voucher Reform Act (SEVRA) proposed to authorize a permanent version of MTW expanded to 80 agencies, 20 of which would have limited discretion. In HUD's 2008 report to Congress on the MTW demonstration, the department proposed to almost double the number of agencies in the demonstration to 60. In its report, HUD argues for MTW expansion: "MTW provides unprecedented insight into alternative methods of providing housing assistance. By prolonging the demonstration and doubling the number of participating agencies, the housing industry stands to learn even more from this unique resource." In recent years, Congress has authorized the slow expansion of the MTW demonstration, permitting the selection of a few new agencies annually.

PHADA believes that authorizing and expanding MTW will offer many more agencies an opportunity to use federal housing assistance programs to better address local needs and preferences more efficiently and more effectively.

Conclusion:

Speaking personally and on behalf of PHADA, I thank the committee for remaining engaged in reforming assisted housing programs, a complex task in the best of times. Reforms that include simplification, deregulation and local flexibility have become critical to agencies that may experience severe funding



constraints in the immediate future. SESA continues to include some elements that can help ameliorate coming difficulties.

However, with future budgets in mind, we also believe that a more ambitious approach to expanding local flexibility and discretion offers more opportunities for local agencies to serve participants and applicants best. Inclusion of SHARP or elements of that proposal, and the expansion and permanent authorization of MTW will be significant steps that help agencies weather coming storms and emerge better positioned to fulfill their mission of providing safe decent and affordable housing to low and moderate income households within their jurisdictions.

United States House of Representatives
Committee on Financial Services

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Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name: P. Curtis Hiebert	2. Organization or organizations you are representing: Public Housing Authority Director's Assoc.
3. Business Address and telephone number: 	
4. Have <u>you</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	5. Have any of the <u>organizations you are representing</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
6. If you answered .yes. to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets. 	
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