

Written testimony of Assistant Secretary Sandra B. Henriquez

“Legislative Proposals to Preserve Public Housing”

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Good morning Chairwoman Waters, Ranking Member Capito and Members of the Committee. Thank you for the opportunity to testify today regarding the Department of Housing and Urban Development’s vision for the future of rental assistance.

I have spent the better part of my professional life working to create and preserve affordable housing for low income families. I believe that providing rental assistance is by far the Department’s single most important purpose. Public and assisted housing is a critically important resource for 4.6 million families. Many of these families, including 70% of public housing residents, have extremely low incomes¹. And though that number of families served is impressive, the reality is that demand for safe, decent, affordable housing far exceeds the supply.

With much of the federally-assisted housing portfolio over thirty years old, we are losing units at an alarming rate. Since the mid-90’s over 150,000 public housing units have been lost, primarily as a result of deterioration. Public housing authorities (PHAs) have had little choice but to either demolish or dispose of units that were unsalvageable.

The Public Housing program in particular is wrestling with an old physical stock and a backlog of unmet capital needs that may exceed \$20 billion. The capital needs of our Nation’s affordable, federally-assisted housing stock are too substantial and too urgent to continue that model.

This Administration recognizes that in almost all cases it is far more costly to build new units than to preserve existing affordable housing. And that an affordable housing project can limp along for some time with piecemeal, ad hoc strategies to address its accumulating repair needs, but eventually the building will reach a “tipping point” where its deterioration becomes rapid, irreversible and expensive.

Given the current fiscal environment, it’s clear the federal government alone will not be able to provide the funds needed to bring properties up to date and preserve them for the

¹ Defined as having an income at or below 30 percent of Area Median Income. See additional 2009 public housing and housing choice voucher demographic data attached.

next generation. Consequently, we must identify new funding streams for public and assisted housing.

After finding the additional resources to recapitalize the inventory, we must also establish ground rules for the redevelopment of public housing. Today, through HOPE VI, demolition and disposition, conversion to Section 8 Vouchers, etc, we lose more than 10,000 public housing units every year.

This Administration believes that one-for-one replacement should be the default position. You have seen it in our Choice Neighborhoods legislation and you will see it echoed in the Transforming Rental Assistance (TRA) bill that we hope to get to you in the next few weeks.

In light of market differences, local constraints, and the benefits of redeveloping with appropriate densities, we also believe PHAs should have flexibility to replace public housing units with other types of "hard" units, such as project-based vouchers, and to locate replacement housing off-site. In a few "soft" rental markets where vouchers are highly effective in providing access to quality affordable housing in neighborhoods of opportunity, PHAs should also have authority to replace a portion of their public housing units with tenant-based vouchers.

It should be noted that as the department engages in the process of developing and redeveloping the public and assisted housing stock, we remain deeply committed to affirmatively furthering fair housing.

Chairwoman Waters, you know these issues all too well. Your efforts to preserve affordable housing have been unparalleled, and your leadership on behalf of public housing has contributed greatly to its endurance. On behalf of the department, I want to thank you for remaining such a steadfast partner.

I also want to acknowledge your legislation to support preservation by revising the laws governing public housing demolition and disposition. Your bill offers thoughtful suggestions on the rules that would govern redevelopment of public housing. In concept, the department supports the intent of the *Public Housing One-for-One Replacement and Tenant Protection Act of 2010*, to stem the loss of public housing and protect the voice of tenants in local land-use and development decisions.

Responsibly, the bill recognizes that some public housing developments are obsolete and must be reconfigured, even to the point of fewer units on site, and that some sites are not suitable for housing, at all. We support the bill's solution in these cases to allow off-site development to fulfill the requirement. We note that the bill would also allow public housing units to be funded through other means, such as project-based assistance. As I will discuss later in my testimony, HUD also believes we can meet the traditional goals of public housing without relying on traditional funding sources. However, PHAs will not necessarily have the resources to fund the amount of housing production envisioned by the bill. In that regard, the bill

harkens back to the early 1990's where distressed housing remained vacant, or worse was housing low-income families, largely because housing authorities had insufficient resources to replace the units on a one-for-one basis.

I would also like to recognize the many contributions to affordable housing preservation made by Chairman Frank, who most recently introduced the *Housing Preservation and Rehabilitation Act of 2010*.

The driving force behind both pieces of legislation is a strong desire to have a true, permanent public and assisted housing preservation strategy.

This moment calls for a crucial federal investment to leverage other resources, and to maintain the number of safe and decent public and assisted housing units available to our nation's poorest families – an objective that at some point, soon, will cost the taxpayer substantially more to achieve by other means.

It should be acknowledged that we have spent nearly two decades redeveloping the most distressed public housing projects, through HOPE VI and other initiatives. And those efforts have paid off. The stock is in better shape overall than it has been in some time, and the \$4 billion in ARRA funds targeted to public housing capital improvements are further stabilizing the portfolio.

But again, given a capital backlog that potentially exceeds \$20 billion, the Recovery Act investment addresses only a portion of the housing portfolio.

Of course, as great as capital needs are, you and I both know that the depth of human need is even greater. Countless residents still remain trapped in neighborhoods of concentrated poverty -- because moving means giving up their subsidy.

These families not only lack mobility -- they lack hope, opportunity and choice.

Today, we face a choice of our own -- we can approach the challenges facing this population ad hoc, piecemeal, from program to program, as we have for decades.

Or we can deal with them now--together, in partnership, in a comprehensive way--and put our rental assistance programs on a more sustainable footing for years to come.

With this perfect storm of challenges and opportunities before us, I believe now is the moment to permanently reverse the long-term decline in the Nation's public housing portfolio and address the physical needs of an aging assisted housing stock -- and finally move HUD's rental housing programs--and the people who rely upon them--into the housing market mainstream.

To address these issues, HUD proposes to launch an ambitious, multi-year preservation effort called Transforming Rental Assistance (TRA).

TRA would help preserve public housing for the long term in two fundamental ways:

First, by providing subsidies similar to project-based vouchers and project-based Section 8, it would allow housing agencies to obtain more private financing than existing public housing subsidies do. Agencies would have greater flexibility to use the annual subsidies and mortgages on the properties as collateral to obtain financing. In addition, lenders likely would perceive these subsidies as more reliable means of repayment than public housing subsidies and thus would be more likely to provide sufficient financing at reasonable costs.

Please note: the changes we're proposing aren't about who owns public and assisted housing - but how it's funded. For years, we've seen public housing authorities convert to Section 8 Vouchers for the simple reason that that program, which funds private ownership, is more sustainable. By allowing public housing authorities to access the capital and resources that private owners can today, we're leveling the playing field to make the preservation of public housing possible.

Second, TRA would modestly increase funding for public housing units to a level that would be closer to the subsidies in the voucher and project-based Section 8 programs and should be adequate (in combination with expanded private financing) to carry out needed renovations and sustain the units over time.

TRA is anchored by four guiding principles:

First: that the key to meeting the long-term capital needs of HUD's public and assisted housing lies in shifting from the federal capital and operating subsidy funding structure we have today – which exists in a parallel universe to the rest of the housing finance world—to a single, property-based federal subsidy that leverages capital from other sources.

Second: that the complexity of HUD's programs is part of the problem - we must streamline and simplify our programs so that they are less costly to operate and easier to use at the local level.

HUD currently operates 13 rental assistance programs. Over time, additional programs designed to meet the needs of vulnerable populations were added without realizing the disjointed system that would result. This unwieldy structure fails to serve the Department, our government and private sector partners, and—most importantly—the people who live in HUD-supported housing.

Ultimately, TRA is intended to move properties assisted under these various programs toward a more unified funding approach, governed by an integrated, coherent set of rules and

regulations that better aligns with the requirements of other of federal, state, local and private sector financing streams.

Third: that we must combine the best features of our tenant-based and project-based programs to encourage and allow residents' choice about where they live.

If a century of housing policy has taught us anything, it's that if there isn't equal access to safe, affordable housing in neighborhoods of choice, there isn't equal opportunity.

We say that with the understanding that real choice means informed choice -- HUD will work with partners at the state and local level to ensure that families that want vouchers can use them to move to neighborhoods of their choice and to greater opportunity.

At the same time we recognize that HUD must refocus our programs to revitalize low-income neighborhoods to be true neighborhoods of choice -- with opportunity, safety, good schools and a mix of incomes. That is a goal that TRA shares with our Choice Neighborhoods initiative.

And fourth: that all of our efforts to preserve the public and assisted housing portfolio are crucial to improving the lives of families and children. We must not only provide choice but we must also empower our tenants by enhancing the rights and protections afforded to them.

TRA, embodied in its four principals, reflects HUD's commitment to preserving affordable housing with a reliable, property-based, long term rental assistance subsidy, supporting affordable housing reinvestment and neighborhood revitalization efforts, and bringing enhanced opportunity and choice to residents. In addition, bringing private investment and tenant choice to public housing will provide market incentives for our partners to more effectively and efficiently manage their properties.

Under the 2011 Budget, the first phase of TRA will provide \$350 million to preserve approximately 300,000 units of public and assisted housing, increase administrative efficiency at all levels of program operations, leverage private capital, and enhance housing choice for residents. With this request, we expect to leverage approximately \$7.5 billion in other state, local, public and private capital investment. PHAs and private owners will be offered the option of converting to long-term, property-based rental assistance contracts, which we are working to define in close collaboration with current residents, property owners, local governments and a wide variety of other stakeholders.

Most of the fiscal year 2011 down-payment on TRA, up to \$290 million, will be used to fill the gap between the operating and capital funds otherwise available for the converting properties and the first-year cost of the new contracts. As noted above, a reliable funding stream will help place participating properties on a sustainable footing from both a physical and a financial standpoint, enabling owners to leverage private financing to address immediate and long-term capital needs, and freeing them from the need for separate, annual capital subsidies.

Under this voluntary initiative, HUD will prioritize for conversion public housing and assisted multifamily properties owned by PHAs. In this regard, TRA delivers on the promise of over a decade's worth of movement in the field of public housing toward the real-estate model known as "asset-management," by finally providing public housing authorities with the resources to successfully implement this model in properties they will continue to own.

Three types of privately-owned HUD-assisted properties will also be eligible for conversion in this first phase: Section 8 Moderate Rehabilitation contracts administered by PHAs, and properties assisted under the Rent Supplement or Rental Assistance Programs. With this step, we can eliminate three smaller legacy programs that have become "orphans" as new housing programs have evolved. This consolidation will preserve publicly-owned properties for residents, improve property management standards, and streamline HUD oversight to save the taxpayer money.

The remaining funding, up to \$50 million, will be used to provide additional services to expand families' housing choices and support informed decisions by residents that choose to move including resources to encourage landlords in a broad range of communities to participate in the housing voucher program. A portion of these funds also may be used to offset the costs of combining Housing Choice Voucher administrative functions in regions or areas where locally-designed plans propose to increase efficiency and effectiveness as part of this conversion process.

In closing, the ultimate goal of TRA is to put both the public and assisted housing portfolio on firm financial footing, and start to meld HUD's disparate rental assistance and capital programs into a truly integrated federal housing finance and rental assistance system that serves families better.

I hope that as we move through this process we can count on your support in advancing what we believe is a real breakthrough in public and assisted housing preservation efforts.

Thank you again, and I welcome any questions you have at this time.