WRITTEN TESTIMONY

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STATE AND LOCAL HOUSING FLEXIBILITY ACT OF 2005
U.S. House of Representatives – Committee on Financial Services

H.R. 1999

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Chairman Oxley, Ranking Member Frank, Distinguished Members of the Committee including Subcommittee Chairman Ney, Vice Chairman Miller, and Ranking Member Waters:

My name is Daniel Nackerman. I am the Executive Director of the Housing Authority of the County of San Bernardino (HACSB). For the past 16 years, I have worked in senior and executive management positions at four large public housing agencies in California. The HACSB has a long-standing record for being a HUD designated high performance agency. As such, we pride ourselves in taking progressive approaches in areas such as the development of additional housing, creating first-time homebuyer opportunities, and providing supportive services to help families transition from assisted housing to self-sufficiency.

In working at these four urban agencies, I have come to the following conclusions:

- Housing Authority personnel understand the plight and struggle of the seniors, families and disabled individuals they serve.
- The programs we administer are complex and prescriptive.
- Presently, the key elements of these programs include disincentives to employment.
- HUD's past approach of a one-size-fits-all does not work in many individual communities.
- The HUD programs of Public Housing and Section 8 have demonstrated overall success in recent years as evidenced by a record number of people assisted, a record high for homeownership, and the elimination of severely distressed properties.
- There is a huge common ground of agreement on how to reform these programs. We are now engaged in the finer points of how to do this.

This bill is the culmination of three years of efforts by HUD and housing agencies to significantly change two major housing programs: Section 8 and Public Housing. This bill proposes to allow local design of programs by simplifying rent structures, standardizing income requirements, matching tax credit & HOME programs, reducing required inspections, providing homeownership incentives, expanding the 'Moving to Work' program, and reducing administrative burdens that result in high costs. Most of these changes would be optional based on new locally adopted policies. If adopted, the person(s) served in both programs would continue to pay only 30-40 % of their adjusted gross income (AGI) for rent.

The following is a brief summary of proposals and issues identified in San Bernardino County, California:

<u>Budget</u>: As noted by three reputable public housing organizations, the bill does not prescribe a distinct allocation formula or permanent authorization for budgets (which might be clarified before final passage or perhaps it doesn't belong in the bill.) However, it is very clear that these successful programs require stable funding.

<u>Income Targeting - Section 8</u>: This bill proposes to minimally change the income levels of persons served by targeting 90% of vouchers to households below 60% of Area Median Income (AMI) in lieu of the current 75% at 30% AMI. Note that the 75% at 30% has only been a requirement since 1998 and most agencies in our area serve even lower incomes regardless. By changing these income levels some agencies may save significant funding because less HUD subsidy would be required since the average tenant rent might be slightly higher (e.g. 30% rent of a sample average household income of $11,000 times 10,000 units (a mid-large agency) equals $33 million whereas 30% of $11,500 income equals $34.5 million for an annual savings to that agency (and HUD) of $1.5 million.

Note that the margins are small but the total savings are large and some agencies may need this route to savings in order to continue to administer the program viably. Generally, the new targeting would continue to serve the bottom third income levels of the entire American population just as the previous program did.

The proposed standardization would match tax credit and HOME programs thereby simplifying requirements for developers, banks, tenants, and landlords yet continuing to serve much lower income levels than many other housing programs which serve 80-120% of AMI households.

Rent & Income Simplification: If adopted, the bill would allow local agencies to implement simpler rent structures and income verification processes. This would eliminate disincentives to employment and create significant savings to program costs as subsidies slow while employment income grows. This will also provide an opportunity to serve more families, as the average participation time in the programs will be reduced. While the variation from one local agency to another may cause additional tracking requirements, the simplification of all systems should actually save overall administration efforts.

Rents Paid: Authorities could abandon old HUD systems and pay realistic rents at the appropriate level for each sub-market. This would allow fair and reasonable rents to always be paid and help low-income families to live in better communities. Additionally, property owners who may not otherwise participate or rent to voucher holders would have an incentive to do so. The confusing and inaccurate systems of 'utility reimbursements' might also be eliminated.

New Affordable Homes: Eligible families could designate down payment and mortgage commitments funded through Section 8 *before* construction begins which may help to finance new affordable houses. Also, up to $10,000 in down payment assistance for each family could now come from Section 8.

Expansion of 'Moving to Work': For over five years HUD has allowed a miniature version of these reforms called 'Moving to Work' by naming 32 agencies (1% of the nation) as pilot sites. The efforts, which included incentives to gain employment, mixing of fund sources, relief from obsolete regulatory requirements, and effective use of funding for development and homeownership, have gained recognition as a very successful pilot even though the results were hard to measure since they varied according to each local design. This program would be dramatically expanded under the new bill.

Time Limits: Under the new bill, time limits *could* be added to a local program wherein a Section 8 household (non-disabled, non-senior) could only participate in the program for a set maximum time of at least five years. (This should be handled very carefully and with great assistance from the agency.) Time limits could also help to serve a much larger number of households and relieve the hopelessness of the extensive waiting lists that exist in many regions.

Project Based Vouchers: Housing Authorities could give up to 20% of the total vouchers allocated to the region to a developer/builder for a period of 10 years plus extensions. While similar to existing regulations, HUD is strongly encouraging production of additional housing through the stimulus provided by Project Based support.

Enhanced Vouchers: The bill attempts to migrate the use of enhanced vouchers into regular vouchers over a course of time. This could limit the choices of existing participants and have a negative financial effect on the relatively few owners who were granted these in the past.

Although not directly related to this bill, the lump-sum funding remains an issue that receives much discussion. Lump-sum funding, often called block granting, is HUD's way of funding *overall budgets* to each Authority instead of reimbursing Authorities at year-end for a *set number of units* authorized to be leased. The old system, which has already been changed by HUD, was very unpredictable and expensive. As an example, one agency in a hot market might rent it's allocation of units at rates 20% higher than the previous year, yet HUD was forced to make up the difference between 30% of tenants income and the new higher rent at year end. This has recently caused unprecedented and unpredicted costs that have been viewed as irresponsible even though the spiraling real estate markets were the cause. Under lump-sum funding, the same agency would be given a budget at the beginning of the year and they would have to design a streamlined local program that would work to fit the budget. This is a more responsible way of managing budgets both locally and nationally. Many see this change as a way for HUD to cut future budgets without getting the direct blame – yet the old system of reimbursing costs at year-end was simply out of control.

Note also that the term ‘Block Granting’ was floated by HUD last year as a way for State’s to take over Section 8 and many are confusing the new proposal with the old battle over State vs. local – this is not the proposal under this bill.

Conclusion:

The reform aspects of the bill are long overdue and have been formulated through years of work. Except for funding/appropriation issues that may not be adequately addressed (appropriately not part of the bill) these overhauls will result in the following:

- Financially stable programs
- Higher employment levels
- Simplification on a national level offsetting local variances
- Significant administrative efficiencies/cost savings
- Full rents paid in every market
- Higher level of home sales (first time buyers)

This bill fills critical needs of the 3.2 million residents housed and helps guarantee the success of each local program.

Thank you for your time.

Attachments:

Truth in Testimony Disclosure Form
Overview of the Housing Authority of the County of San Bernardino
Biography, Daniel Nackerman