



**Testimony of
Ismael Guerrero, Executive Director
Housing Authority of the City and County of Denver, Colorado**

**before the U.S. House of Representatives Committee on Financial Services
Subcommittee on Insurance, Housing and Community Opportunity**

November 3, 2011

Madam Chair Biggert, Ranking Member Gutierrez, and Members of the Subcommittee, my name is Ismael Guerrero and I am the Executive Director of the Housing Authority of the City and County of Denver, in the great state of Colorado. Thank you for the opportunity to provide testimony on the Rental Assistance Demonstration proposal to preserve and improve public housing through voluntary conversion in Denver and across the nation.

Introduction

Denver Housing Authority is the largest housing authority in the Rocky Mountain Region, and DHA is the largest landlord of subsidized rental housing in the city of Denver. Collectively, DHA serves over 25,000 residents through a combination of public housing, project-based Section 8 housing, mixed-income tax credit housing, and Section 8 Housing Choice Vouchers. For over 70 years, DHA has provided safe and decent affordable housing to the lowest income families, seniors, and disabled individuals in Denver.

Today, we are on a mission to transform our most distressed public housing into vibrant, thriving neighborhoods of choice where families have good schools and access to opportunities, where seniors can age in place, and where people with a diversity of incomes, from downtown working professionals to the formerly homeless, have housing options. In the last four years, DHA has been ranked as one of the top multifamily developers in the Denver region; thanks to the progressive vision of our Board of Commissioners, my talented and passionate staff and the creative mixed-financing strategies we have successfully executed in order to preserve the public housing we have while creating new affordable and market rate units. We continue to maintain a high performer status with HUD and simultaneously, an A+ rating with Standard and Poor's on our Denver Housing Corporation's tax-exempt revenue bonds.

In short, we are here today to testify on behalf of the Rental Assistance Demonstration legislation because, as a developer, owner, and manager of a diverse, subsidized real estate portfolio, we understand the challenges and opportunities that face all housing authorities seeking solutions to the backlog of public housing capital needs within their portfolio.

I am also appearing today as a Board member of the Council of Large Public Housing Authorities (CLPHA). CLPHA is a national, non-profit membership organization committed to the goals of preserving, improving, and expanding the availability of housing opportunities for low income, elderly, and disabled individuals and families. CLPHA's members comprise nearly 70 of the largest Public

Housing Authorities (PHA's), located in most major metropolitan areas in the United States. These agencies act as both housing providers and community developers while effectively serving over one million households, managing almost half of the nation's multi-billion dollar public housing stock, and administering over one-quarter of the Section 8 Housing Choice Voucher program.

We thank the Subcommittee for holding this hearing on "the Rental Assistance Demonstration (RAD)" program, and appreciate the opportunity to comment on the RAD proposal set forth in the Senate version of the fiscal year 2012 funding bill for the Department of Housing and Urban Development (HUD). HUD included in its FY2012 budget submission a demonstration proposal to convert public housing units to project based Section 8 vouchers or contracts, and the Denver Housing Authority supports this demonstration pilot of public housing conversion. The RAD demonstration would allow conversion to be tested on a modest scale, so that important elements of the program, including rent setting, resident choice options, and foreclosure provisions, can be developed, evaluated and perfected in order to better enable Congress to implement conversion more broadly.

A coalition of interest groups, convened by CLPHA, helped to develop a RAD proposal that was a result of a months-long process by stakeholders in Congress, HUD and the affordable housing community. The result of the collaboration was a consensus draft intended to serve as a blueprint for legislation. The Senate proposal is a modified version of that legislative draft put forth by the stakeholders, and would preserve public housing units by allowing a limited conversion of public housing operating and capital funds to project-based Section 8 vouchers or contracts.

With this conversion option, we hope to convert public housing to a more adequate, reliable and flexible subsidy platform. The goal for this demonstration is for housing authorities to effectively use this tool to secure adequate operating income and additional capital investment to ensure long term sustainability and affordability of quality housing for low income families, seniors and persons with disabilities.

Overview of DHA Capital Needs and Housing Portfolio

A recent HUD study on capital needs of public housing shows that more than \$26 billion in unmet capital needs exist in public housing. The Denver Housing Authority has capital needs of over \$90 million (\$89,690,629). Over the years, Congress has not provided enough in the public housing capital fund for DHA to keep up with the backlog of capital needs in our properties, jeopardizing the viability of these properties and the quality of affordable housing our residents deserve. In today's funding reality, with Congress rightly focused on addressing the nation's fiscal debt crisis, nationally housing authorities have already absorbed one 20% reduction in annual capital grant funding, creating a situation where we aren't able to meet our annual needs and thus are adding to our capital backlog. These persistent cuts will define a new baseline of funding that will continue to be lower than in prior years.

For the past decade, DHA has become more creative and more resourceful in using the federal resources that we have available. In that time, DHA has been awarded three HOPE VI federal grants, totaling over \$67 million. With those funds, we are on track to preserve over 650 units of federally subsidized housing, while simultaneously creating over 1100 units of new affordable workforce and market rate units.

DHA also took full advantage of HUD's Capital Fund Financing Program (CFFP), which allowed us to securitize our future allocation of Public Housing Capital Funds, generating tax-exempt bond proceeds of \$14.6 million and low-income housing tax credit equity of over \$12.5 million. With these proceeds, we successfully addressed the long-term capital needs of over 300 public housing units in three distinct senior high-rises.

Most recently, DHA was a partner with HUD in the American Recovery and Reinvestment Act. DHA was awarded 5 competitive grants, totaling over \$27 million in public housing capital funds. With these awards, we were able to leverage an additional \$40million of both private debt and equity through private activity bonds and the low income housing tax credit program. This allowed us to accelerate important capital projects, including the preservation of over 200 public housing units and simultaneously creating 120 new public housing units that had been eliminated and never replaced from older, obsolete public housing sites.

While we are very proud of these accomplishments, and grateful for the partnership we have with HUD, this still only represents less than a third of our total portfolio. And, just as important, each of these successes was built upon one-time opportunities that required a significant, and very competitive, federal grant. When DHA was awarded its most recent 2010 HOPE VI capital grant, we were one of eight public housing agencies awarded. That left over 25 other public housing authorities nationally without the capital funds needed to address their most distressed properties in their local community. Similar distressing ratios between applicants and awardees exist in every one of the federal competitive capital grant programs, from HOPE VI, to Choice Neighborhoods, to the American Recovery and Reinvestment Act competitive capital grant program. In most cases, the ratio of dollars requested to meet the capital needs of the public housing portfolio far exceeds the dollars appropriated to meet those needs.

The reality is that we need a more comprehensive and structural solution to the problem of maintaining, preserving, and transforming our aging and obsolete public housing portfolio. We need market-based solutions that allow PHA's to take limited federal resources and leverage them with private sector debt and equity. And we need new programs that allow for maximum flexibility and local decision making so that PHA's can work with their local elected officials and community stakeholders to design and implement local solutions.

For this reason, we believe that the option to convert public housing operating and capital fund subsidies to Section 8 project based contracts or vouchers is an important tool that should be made available to housing authorities of all sizes and in all regions. DHA has had experience recapitalizing both public housing properties and Section 8 properties with project-based rental assistance. Our experience in negotiating and closing multiple financing instruments leads us to the conclusion that the project-based Section 8 programs offer a more efficient execution, require less upfront federal capital investment, and allow for greater leveraging of private sector debt to cover the cost of recapitalization.

Just as important, converting the ACC operating and capital funding structure to project-based rental assistance brings us more in line with real estate industry practices by establishing fair market rent standards that are predictable and rental contracts that are more stable than the current ACC operating subsidy formulas. To use a cliché, this is a program that we can take to the bank. As you have heard, our Bankers and Equity Partners understand contract rents. They have a harder time with prorated, ACC operating subsidies that rely on very complicated, if not archaic, property expense level calculations.

It is important to emphasize that this program is a voluntary demonstration. By virtue of being a demonstration, the RAD proposal is meant to develop a new approach and insights to public housing preservation. Such insights include: how the conversion option will create new opportunities for PHAs in preserving their stock; how it will enable PHAs to create new partnerships for leveraging resources and attract private capital to improve their housing stock; how the conversion model will work in differing geographic markets; and how conversion, as an option, will benefit existing residents. These are all important issues and we are hopeful the RAD proposal will allow us to find the answers.

Case Study for RAD

Over the past two years, DHA has undertaken two distinct developments. One was the recapitalization of a public housing community, Westwood Homes. The second is the recapitalization of a multifamily property, Mountain View, which receives rental subsidy under a project-based rental assistance contract.

In the case of Westwood Homes, DHA was awarded \$10,000,000 in ARRA capital grants. We proceeded to work with HUD and our investment partners to leverage an additional \$10,749,000 in low income housing tax credits. Along with some additional funding sources, we eventually completed a \$29MM rehabilitation of the property. However, this recapitalization of an older, distressed public housing site would not have been possible without the infusion of over \$10MM in federal capital grants.

Contrast that experience with our current undertaking at Mountain View apartments, a 254 unit multifamily community. Because Mountain View receives project-based contract rents, under a 40 year HAP contract that has been in place since 1978, lenders and equity investors are able to underwrite the property's ability to cover operating expenses, capital needs, as well as make mortgage payments based on our past experience of doing so with the fair market rents we are allowed to collect. DHA is in negotiations with lenders and equity investors to close on a \$29MM recapitalization of Mountain View apartments in early 2012. We anticipate that the final financing package will include an \$8,541,000 permanent loan and \$11,361,000 in low income tax credit equity. No federal capital grants will be required in order to complete the recapitalization. Our investment partners will rely primarily on the good faith of DHA, HUD, and Congress to annually appropriate sufficient funding to cover the annual project-based rental assistance contract obligations.

Why does DHA Support RAD

The above case study explains why DHA supports this Rental Assistance Demonstration. We believe that for certain properties, the Section 8 conversion option will make sense. We do not expect that it will be the solution for all of our public housing capital needs. In particular, there will continue to be a need at DHA, and throughout the country, for large scale federal capital grants such as HOPE VI and Choice Neighborhoods Initiative if we are going to achieve important neighborhood transformation goals in our most distressed urban communities. In addition, there will be a continued need to reposition as well as recapitalize much of our dispersed public housing stock through HUD's disposition process. DHA, like many other housing authorities, continues to need the option of disposing of its most inefficient properties, receiving tenant replacement vouchers, and then replacing those inefficient units over time through the development of new affordable units.

We believe a public housing conversion option will be an important stand-alone financing option for certain properties that do not require repositioning and are not the centerpiece of a major community revitalization effort. At the same time, we also believe that the conversion option should have the flexibility to be combined with programs like Choice Neighborhoods and/or a disposition application, in order to provide maximum leverage and maximum choice for our local communities. Just as DHA has successfully combined Energy Performance Contracts and the Capital Fund Financing Program with other financing structures, we believe a successful RAD will ultimately result in new financing strategies that can not only preserve the existing stock of rent subsidized affordable housing, but also ultimately lead to the creation of new affordable housing as well.

Caveats and Cautions

While a simple and straightforward conversion of public housing operating subsidy to a Section 8 project based rental assistance contract is the most desirable outcome, DHA understands and supports the need for Congress and HUD to take other considerations into account. We hope that with a properly - designed and funded demonstration program, many of the other concerns and questions about how a conversion program would work in practice could be addressed. We offer the following comments on some of the current issues that need to be evaluated.

Regulatory Relief

One of the clear goals of the current administration was to consolidate and simplify the existing morass of multiple rental subsidy programs. At the end of the day, RAD should result in a true conversion of rental assistance from one program to another, more efficient program; i.e. from public housing operating subsidies to Section 8 project-based rental subsidy. We will have failed if the end result is a new program with new rules and regulations; or even a hybrid program that combines rather than eliminates program rules and regulations.

Expedited Waivers or Priority Status

Another possible benefit of this demonstration could be the provision of expedited waivers or priority status provided to RAD agencies. This would enable HA to better meet the market driven financial documentation preparation and financial closing requirements.

Evaluation of RAD Demonstration

We value and commend the Committee for inserting the requirement that HUD conduct an evaluation of the demonstration program. We recommend that collaboration with industry groups assist in developing the program matrix/measurements. We also ask that the Committee require HUD to work towards developing clear evaluation instruments and consolidated reporting requirements in order to not result in additional administrative burdens on a housing authority.

Fully funded Conversion

The underlying motivation for developing a working conversion option is to replace the need for federal funding of capital grants with a more sustainable, market-based solution that allows for maximum leverage of private debt and equity. This goal will ultimately be undermined if Congress does not provide adequate funding for the program. The long term viability rests on the fact that under a project-based rental contract, the housing authority should have sufficient rental income to cover its operating costs, its short-term capital needs, and a reasonable amount of debt service. Fair market rents are and continue to be the industry benchmark for where an efficient owner/manager should be able to operate. Creating an artificial rental subsidy calculation or proration should not creep into the demonstration program.

Choice: Rights and Responsibilities

At DHA we have a strong commitment to resident empowerment and resident engagement. Our resident leaders tell us in no uncertain terms that the most important consideration in resident choice should be fair and equal treatment for all residents. For this reason, DHA does have concerns with the current choice mobility provision in the project based voucher regulations; whereby a resident in a project-based voucher unit is conferred the right to obtain a tenant based voucher ahead of all other program participants and families on the waiting list. We believe that this demonstration program should allow maximum flexibility for local housing authorities to work with their local resident leaders and stakeholders; to create the policies and procedures whereby residents can choose to leave a project-based subsidized unit in favor of a tenant based voucher or other housing option. We also believe that housing authorities should be given the regulatory relief that would allow them to establish certain requirements and responsibilities on the tenant, in exchange for a priority standing to choose a new housing option. We believe strongly that it is important to combine tenant rights with tenant responsibilities. Allowing for the creative, fair, and equitable combining of responsibilities with the right to choose can create important personal incentives toward self-sufficiency and ultimate mobility out of subsidized housing.

Foreclosure and Default

While we understand the importance of safeguarding the public asset that is federally funded affordable housing, we also understand the importance to the lending community of having a clear exit strategy should their investment be jeopardized due to unforeseen market or operating conditions at the property level. For DHA and other housing authorities, our primary concern is that HUD and Congress take into account the underwriting and collateral needs of the lending community in crafting reasonable

and fair provisions. This will ensure that housing authorities will be able to negotiate competitive terms and conditions in their loan and equity agreements with investors.

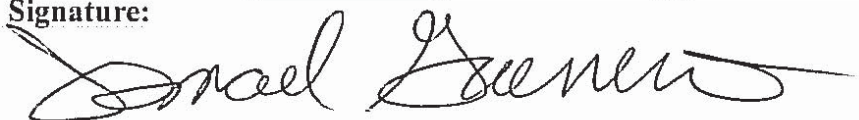
Closing

In closing, I want to restate our support for the Rental Assistance Demonstration; to thank the Committee for holding this hearing; and, to express DHA's and CLPHA's commitment to continue working with Congress on this issue, as we have done over the years with other HUD initiatives such as Moving to Work Demonstration program.. We believe that, in time, RAD will prove to be an effective and successful affordable housing preservation strategy. And, through cooperation and collaboration, we can be successful in preserving, protecting and expanding affordable housing opportunities. Thank you for your consideration of my remarks.

United States House of Representatives
Committee on Financial Services

“TRUTH IN TESTIMONY” DISCLOSURE FORM

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: Ismael Guerrero, Executive Director		2. Organization or organizations you are representing: Housing Authority City & County of Denver	
3. Business Address and telephone number: <div style="background-color: black; height: 80px; width: 100%;"></div>			
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 checked="" type="checkbox"/> Yes <input 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 checked="" type="checkbox"/> Yes <input 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.			
<p>See attached listing of DHA Source and Amount of grants or contracts RAD subject.</p>			
7. Signature: 			

Please attach a copy of this form to your written testimony.



The Housing Authority of City and County of Denver
Source and Amount of Grant or Contract
Rental Assistance Demonstration Testimony
Subcommittee on Insurance, Housing and Community Opportunity
November 3, 2011 2 p.m. 2128 Rayburn House Office Building

RESPONSE TO QUESTION 6. ATTACHMENT A

PROGRAM	2008	2009	2010*	2011
Capital Grant Funding (HUD)	\$ 5,900,132	\$ 6,337,358	\$ 5,996,181	\$ 5,170,938
Replacement Housing Factor (HUD funding for Public Housing replacement)	261,339	494,296	760,799	562,395
ARRA Grant	0	35,212,687	0	0
HOPE VI	0	0	0	22,000,000
Operating Subsidy (HUD)	14,994,287	16,452,277	15,491,485	18,636,900
Section 8 HAP Assistance* (HUD)	57,128,294	53,562,248	54,933,478	57,139,979
ROSS Grant - Resident Service Delivery Models (HUD), FSS, HOSS, NN, TANF, Multi- family Coord., Shelter Care, Youth Opportunity, WIA., Tony Grampsas, etc.	2,078,664	2,248,393	2,097,062	1,170,169
TOTAL	\$80,362,716	\$114,307,259	\$79,279,005	\$104,680,381

Source: DHA 2011 Budget Document Pages 146-147 11.02.11 DHA Executive Depart slm

*Includes Section 8 administration fees provided to DHA by HUD for all Section 8 programs.