

Written Testimony of:

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*“The Future of Housing in America: Increasing Private Sector
Participation in Affordable Housing”*

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Of the Committee on Financial Services**

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Introduction

Chairman Luetkemeyer, Ranking Member Cleaver, and Members of the Committee, thank you for the opportunity to testify on the topic of increasing Private Sector Participation in Affordable Housing. My name is James Evans. Before starting a career in housing, I spent 6 years in the active duty Army, including in theater service during Operations Desert Shield and Desert Storm. For the past 23 years, I have worked in the field of affordable housing and for the past 11 years, I have worked for Quadel Consulting.

Quadel was formed in 1978 and provides consulting, training and direct management of affordable housing programs. Our clients include Executive branch Federal agencies, State housing finance agencies, public housing agencies and authorities, for profit and nonprofit developers of affordable housing, private sector administrators of assisted housing programs and research organizations and universities committed to evaluating and improving the quality and availability of affordable housing in all neighborhoods of our great country.

My testimony today is based upon my experiences and focuses on the national need for more affordable housing as well as ways to increase private sector participation. Not only is private debt and equity critical to preserving affordable housing, it is also important to ensure there are opportunities for private sector business models to support HUD and other public agencies in providing cost effective administration of housing programs. Among the housing policies that ensure private participation are (1) consistent and adequate funding levels for both programs and administration and (2) consistent program requirements that are based on private market principles and foster innovation.

Need

There is a tremendous need for affordable housing in America. In a January 2015 report to the Congress on worst case housing needs, HUD concluded, “Even with rental assistance, 6 of 10 extremely low-income renters and 3 of 10 very low-income renters do not have access to affordable and available housing units. In 2013, there are 1.6 very low-income households with worst case needs for every very low-income household with rental assistance.¹” Clearly, there is a huge unmet demand for affordable housing in this nation. The profile of those with the unmet housing need varies. Every day veterans are returning home from the war on terror. Some of these warriors are returning home with physical and emotional disabilities and need a safe and affordable home to reconnect with family, heal, obtain employment and return to a normal, healthy civilian life. There are thousands of homeless in every state and congressional district across the country. The baby boomer generation is applying for and requiring the support of affordable housing programs. There are hard working parents with low wages who want their children to live in safe neighborhoods with easy access to jobs, parks, grocery stores and most importantly, good quality public schools. Our nation’s affordable housing need is great and can

¹ http://www.huduser.org/portal/publications/affhsg/wc_HsgNeeds15.html

only be met with significant participation by the private sector. The challenge now is to determine the best ways to preserve our existing stock of public and assisted housing while at the same time encouraging more private investment.

Housing Choice Voucher Program

Assistance provided under Section 8 of the U.S. Housing Act has, for many years, accounted for the largest part of the HUD budget. By design, it is a program that relies on private developers, owners and landlords across the country in very different real estate markets in order to be effective. Like the U.S. Army, it is only as good as the volunteers who agree to participate under the terms and conditions that the government offers. Unfortunately, funding and program requirements for Section 8 have not fully kept pace with changes in the market place in both the project-based and the housing choice voucher programs. Housing agencies have been forced to lower payment standards, disapprove owner requests for rent increases and take other administrative actions, which have caused some private players in certain markets to decide to discontinue participation in the program or decide not to accept an otherwise qualified tenant with a housing choice voucher.

Across affordable housing programs, there is inconsistency between the program requirements. For example, the statutory maximum term of a project-based voucher contract is 15 years. However, an owner seeking an FHA-insured loan has a requirement that the units financed by that FHA-insured loan remain affordable for the term of the loan, which may go as long as 40 years. The inability to easily layer affordable housing finance programs with subsidy programs discourages private investment.

Recommendations

- Standardize the terms of loan programs and allow the subsidy programs, particularly project-based vouchers to have contract terms that are the same as the loan program term.
- Allow PHAs to calculate the number of project-based vouchers based upon the number of authorized units, rather than the annual budget authority.
- Authorize PHAs to increase the size of their project-based voucher programs from 20 percent to 35 or 40 percent, allowing greater flexibility to expand and preserve affordable housing opportunities.

Moving to Work Demonstration (MtW)

HUD's Moving to Work demonstration was originally authorized in 1996 and has proven to be a successful tool for HUD and the participating agencies to find new, better and more cost effective ways to deliver public and assisted housing services to the community. The flexibility of the program has encouraged innovation, cost savings, flexibility to address local market conditions and better leverage private sector investments. Despite criticism to the contrary, MtW both protects and benefits residents as it helps housing authorities make programmatic investments where they are needed instead of as dictated by one size fits all policies.

A December 2014 report from Abt Associates highlights more than 300 innovations that have increased cost effectiveness, increased the quality and quantity of affordable housing, increased self-sufficiency, promoted residential stability for targeted households, and expanded the geographic scope of assisted housing. Several of the innovations implemented by MtW agencies have been adopted by HUD and are now national policy. Programmatic efficiencies and improvements are the types of actions that encourage private sector investment in public housing programs. In some cases, the cost savings experienced by an MtW agency have been reinvested into their programs to help maintain the viability of current assets, create new programs to help the most vulnerable and expand or improve existing programs.

Recommendations

- Either expand the MtW demonstration or build current MtW innovations into existing public housing and Section 8 programs.
- Use lessons learned through the MtW demonstration to promote fair housing by expanding private sector housing opportunities and the number of units that are affordable for voucher holders.

Low Income Housing Tax Credits

The Low Income Housing Tax Credit program has been the primary financing tool to create and preserve affordable housing since the 1980's. According to the National Council of State Housing Agencies, in 2013, the demand for low income housing tax credits was nearly three times the supply. In 2012, State Housing Finance Agencies awarded \$754,696,682 in low income housing tax credits, resulting in the creation of 55,925 affordable apartment units.² This program is popular with developers, advocates and consistently maintains bipartisan support among legislators and the executive branch. The Congress can strengthen and enhance the contributions of private sector participants in affordable housing by continuing to support and expand the use of low income housing tax credits to meet the growing need for more affordable housing.

Rental Assistance Demonstration (RAD)

The Rental Assistance Demonstration, or RAD, is HUD's program to introduce private investment into public housing and has experienced some early successes. One current challenge to the RAD program, a challenge that may slow its progress, is access to the 9 percent low income tax credits. Because some of the nation's public housing stock is in such poor condition, 9 percent low income tax credits are the only financing tool to make a RAD conversion viable. While States have other financing programs that may help reposition the public housing portfolio, many of those programs will only assist the less distressed projects. Agencies cannot address the worst case needs without the more valuable 9 percent tax credit.

Recommendations

² <https://www.ncsha.org/resource/housing-credit-utilization-charts>

- Create a special allocation of 9 percent low income housing tax credits, in addition to the current allocations, that are specifically for the conversion of public housing units. The repositioning of public housing should not interfere with the production of new affordable units.
- If a housing authority is fortunate enough to competitively win an allocation of tax credits (9 percent or 4 percent), allow that agency to enroll into the RAD program and exempt those units from the RAD cap.
- Allow any project that already has a tax credit award (i.e. current HOPE VI, mixed finance, etc.) to convert the public housing units under the RAD program, again without counting toward the RAD cap.

Because the 9 percent credits are highly competitive and housing authorities are going up against other well qualified and important projects, these recommendations will help guarantee the preservation of the current public housing stock and allow for RAD to move past the demonstration phase, while allowing these projects to close at a more rapid pace without slowing the creation of other affordable housing.

Repositioning of Public Housing

The current formula for managing public housing assets is broken. The combination of tenant rent, operating subsidy and capital funds cannot meet the financial needs of an aging inventory of public housing and RAD may not be the best option for all public housing developments. Section 30 of the Housing Act authorizes PHAs to mortgage or otherwise encumber their public housing real estate and other property to secure financing transactions. This is a solution that does not cost the government any money and allows PHAs to leverage the value of public housing properties through traditional financing programs. This flexibility has not been used often, but is gaining in popularity. This option opens new avenues for private investment into public housing projects, and grants access to the same financing tools that have long been available to the owners of other HUD-assisted properties. While taking advantage of these opportunities, we need to make sure that the rights of tenants are protected.

Recommendations

- Simplify the processes associated with obtaining HUD approval to subordinate the Declaration of Trust.
- Using lessons learned from MtW, authorize PHAs to have the flexibility to combine federal funding sources to preserve existing housing units.

Performance Based Contract Administration (PBCA)

In the early 1990's Congress made the decision to utilize a private sector model to manage and oversee the administration of Section 8 project-based assistance contracts. There are approximately 1.6 million units associated with these contracts that are privately owned and allow for a rent subsidy, making these units affordable to low- and very low- income renters. Because these units are owned by the private sector and there is debt on all or most of the

properties, it is essential that Congress ensure an adequate and uninterrupted process for payments.

Conclusion

To ensure private participation in the creation and preservation of affordable housing, there needs to be consistent and adequate funding levels for the programs and the administration of the programs. Any program improvements should be designed with the goal of attracting private sector participation and based upon principles that foster innovation. There is a lot of good work is being done around the country to address the affordable housing need, but more must be done. Housing authorities, while highly regulated, are doing the best that they can to manage their programs and maintain public housing assets that are aging and require significant investment. Likewise, the developers and managers of affordable housing are doing what they can with the resources available. Many of the HUD programs were designed to rely on the private sector in order to be successful, like the Section 8 programs. Others, like public housing, increasingly need to rely on private sector, locally driven models as permitted under the Moving to Work demonstration and private debt and equity leveraged through RAD. For more than 37 years, Quadel has been proud to serve in the field of affordable housing. We look forward to working with your Committee on new legislative initiatives designed to enhance the availability and cost effectiveness of these critical governmental expenditures.