

July 28, 2009

The Honorable Maxine Waters  
Chairwoman  
Subcommittee on Housing and Community Opportunities  
Financial Services Committee  
2344 Rayburn House Office Building  
Washington, D.C. 20515

The Honorable Shelley Moore Capito  
Ranking Member  
Subcommittee on Housing and Community Opportunities  
Financial Services Committee  
2443 Rayburn House Office Building  
Washington, D.C. 20515

Dear Chairwoman Waters and Ranking Member Capito:

I would like to thank you both and the members of the Subcommittee on Housing and Community Opportunities for the opportunity to address the Subcommittee on the topic of the Future of Public Housing. As was requested of me, the following is my written testimony for the record.

Public housing has been at a crossroads for well over a decade. As a policy matter, those that work in the public housing arena recognize that some progress has been made in certain areas while other areas of the public housing debate have languished, without resolution. For example, the almost uniform position of public housing professionals is that public housing is underfunded as a program – that would be the languishing part of the debate. On the other hand, most of them would also state that the changes to management and operations undertaken since the enactment of the HOPE VI program and subsequently the Quality Housing and Work Responsibility Act of 1998 (QHWRA) have been positive and occasionally painful.

This testimony proposes that our nation should build on the progress made to operational improvements in the public housing world. We may need to think of affordable and public housing more broadly than we currently do. I would offer that the focus of reassessing public housing should be placed on adapting to change. That change should focus upon providing housing authorities with greater operational flexibility and encouraging the construction or preservation of affordable units that replace long obsolete public housing units.

For example, adapting may mean that a policy focus should be placed on increasing affordable housing supply, not just public housing supply, using the most versatile tools, like the low income housing tax credit and private activity bonds and, where possible, allow for public housing operating funds to support these units. It may mean supporting the operation of the aforementioned units using operating funds for public housing

(Section 9 funding) to some degree now, but there are limits that, if reconsidered, might increase supply and achieve the desired policy result – more low income housing units with some of those units housing the nation’s lowest earning citizens who need the housing.

Adapting may also mean that Congress may want to allow uses of federal funds in ways that it had not before, for instance, allowing public housing authorities to use of Section 8 funds to some degree in order to support units traditionally funded by Section 9 subsidy, especially if appropriated funding for public housing operations is inadequate to support public housing operational costs.

Finally, adapting may mean encouraging that the conversion of public housing units to project based Section 8 units is a valuable affordable housing preservation tool if it is undertaken appropriately and in conjunction with other well known policy objectives, such as the federal policy of de-concentration set forth in the HOPE VI program, for example. In any case, adapting in the context of public housing always means that new housing solutions created to produce or preserve units or better operate public housing may need to be considered now.

There are some well known attributes to public housing that are worth mentioning.

Public housing has always served more than one audience. It started as a program to house the poor during the depression *and* as a jobs program. It changed in the ensuing 30 years to a program that was intended to temporarily house many returning veterans after World War II who are now rightly called our Greatest Generation and their families. As most of those families transitioned out of public housing, the purpose changed yet again and public housing became one of the housing engines of the Great Society. Since the late 1960s though, public housing has been a much harder policy equation to solve for a lot of reasons, not the least of which is the increasing population in many of our nation’s largest cities.

Public housing has always been treated as an independent part of a rental market that serves a specific, though varied, tenancy and a program that is disconnected from the general multifamily housing marketplace. Many in the affordable housing world, myself among them, disagree with that view. Public housing should be an integral part of the whole spectrum of the multifamily housing market. Public housing is at the end of the spectrum that receives the highest support of tax dollars for its operations, yet serves that portion of the market place with the least ability to pay for those operations and services, often because of the fact that its tenants are the single parent households or elderly.

Few federal programs elicit as much emotional debate as public housing and for good reason. The political and business models for how the neediest Americans should be served are all too often polar opposites of one another. The answers to the questions surrounding policy making on the future of public housing are dependent upon recognizing how much our nation has changed in the last 70 years, how much technology has changed as well, and how much change has yet to come.

Often the nature of public housing authorities is forgotten in the arena of policy debates. Public housing authorities are creatures of the state where they are based. Public housing authorities are almost always connected to local government. As a practical matter, they either focus intensively on Section 8 and little on public housing (that is the case in most of the West and South), a lot on public housing and little on Section 8 (that is more often the case in the Midwest and Northeast), or both (which is the case in the nation's largest cities and Puerto Rico, the nation's second largest housing authority).

While public housing authorities are not federally chartered entities, they are federally regulated and almost all are entirely dependent on federal funding even if their state has a state public housing program. Some public housing authorities are enormous while others are essentially very small, state-chartered and federally sponsored businesses. Some public housing authorities serve communities that have exploded in population over the course of the last 3 decades while other public housing authorities serve communities whose populations have been seriously depleted compared to their historical population highpoint.

As people age, so do assets. Public housing stock on average is between 40 and 70 years old, depending upon where it was built. Some public housing stock was constructed in the 1970s and 80s, but by and large, the bulk of the public housing stock is forty years old or older. By most definitions, much of our nation's public housing stock is obsolete or near obsolescence. With the exception of the latest HOPE VI units built since the mid 1990s, most of these units are ill designed by modern standards, inefficient, and cost prohibitive to retrofit. They are often cost prohibitive to run. They are, environmentally speaking, inefficient consumers of the nation's energy resources.

One reason for needed improvement is to address the nature of our nation's evolving housing needs. Traditionally, those served by public housing have been American families in need. Because of the changing nature of our nation's demographics, the number of public housing residents over the age of 65 and receiving public assistance is growing, which means that the stress on affordable housing supply is also increasing. Accordingly, it is timely for Congress to again revisit our policy and business model for public housing given that the public housing stock has aged and public housing operations, like any business operation, can always improve.

If one focuses on outcomes over time, the traditional and long standing public housing model has not served public housing's asset base and operational management system well. In the context of they management of physical assets, the model has often excluded, discouraged or limited very real and proven innovation and resources that could improve the part of the affordable housing spectrum served by public housing. Since HOPE VI and QHWRA's enactment in 1998, much has improved in the dynamic between public housing authorities, the landlords and putative developers who own the public housing stock, and the private sector. Nonetheless, there is a lot of room for improvement.

On the operations side, running public housing, which is every public housing-owning public housing authority's ultimate responsibility, is an expensive proposition. Public housing authorities are frequently subject to scrutiny on any number of governmental and accounting levels, but doubtlessly and directly accountable to local government, which often has very different priorities than Congress. That juxtaposition of priorities causes public housing authorities a lot of stress of both the policy and business variety. Each housing authority faces two often competing realities: its own local reality and the one imposed from a national perspective. Accordingly, tailored public policy may be best for public housing authorities given the vast differences among those two realities. Once one throws the need to serve their tenants into to the proverbial policy cauldron, which is what most public housing authorities ultimately want to do well, the demands are occasionally overwhelming.

I think it is true that both sides of the aisle believe themselves to be good business people. Both sides of the aisle largely agree that when the private sector has had a place at the policy table, we have better policy outcomes than when the public sector was absent. Further, I hope that both sides of the aisle concur that the people who run the nations 4,100 housing authorities know their communities better than nearly anyone. Yet often, the laws and ensuing regulations that are shaped here in Washington tend to discount the local reality of a given public housing authority. The future success of public housing will have as much to do with assuring the stability and relative predictability of the legal and regulatory rubric as much as anything else.

The future outlook for public housing improves if policy outcomes are tailored to the nature of the public housing authority's business and the communities they currently serve. However challenging the act of tailoring policy to the size, locale and nature of the public housing authority may seem, a lot of public housing's future depends on undertaking such tailoring.

I do not suggest nor have I ever suggested that the world of public housing be deregulated. Nor do I suggest that we create a system that accommodates every distinct nuance and reality of a housing authority. I am suggesting in this testimony that the regulatory rubric that has predominated for the last 41 years needs to continue to change. As legislation is drafted, public housing outcomes improve if care is taken to empower public housing authorities to serve their tenants better, and not hamper their locally-created efforts to address many of these concerns in their own way, even when federal resources are involved and at risk. Reasonable but expansive local prerogative is essential to the future success of public housing authorities and, therefore, to the future success of public housing. Public housing's future is entirely dependent on both adaptability to new provider models and predictability that the decisions made by local public housing practitioners, to the maximum extent that Congress can provide such flexibility, will endure over time.

The progress made in the operational improvements to public housing authorities needs to be built upon. Public housing authorities are largely treated as political bodies; I

respectfully suggest that they need to be treated as business entities to a greater degree than they are presently. A great example of an occasionally painful but necessary policy success that has helped public housing's future is HUD's implementation of asset management. Many public housing authorities adamantly opposed asset management at first, but wound up embracing it as a useful tool. Many who were initially wary of asset management have embraced it because they have used it to achieve much needed and long sought after operational efficiencies. As painful as it may be, the future of public housing will improve if public housing is provided by efficient entities who manage their resources and assets well.

Still, some public housing authorities have become so troubled, are attached to historically troubled local governments, have such limited demand or capacity that a desirable policy outcome might be dissolution, merger or consortia. I realize the sensitivity of this subject, but nonetheless, if the goal is for the nation to have a better public housing future, the toughest subjects must be broached and this subject may be among the toughest of all. It may mean that an assessment as to whether a public housing authority is functioning efficiently enough may need to be made and if it is not deemed sufficiently effective or efficient, moving that public housing authority toward consolidation or merger of some kind may be a necessary policy alternative.

One great example of an operational policy tool that merits greater consideration and a more expansive application in public housing's future is the 'Moving to Work' program (MTW). I respect, understand and acknowledge the that MTW is less attractive policy tool for some than it is for others. However, we are all aware of the undeniable advances made by some of our nation's largest public housing authorities with MTW status, such as Chicago, Philadelphia, Atlanta, and Oakland. Their successes have not been accidental; these public housing authorities have achieved much because MTW allowed for the local prerogative to be addressed first and foremost. Furthermore, their successes occurred because MTW gave these housing authorities the flexibility to use resources in a way that helped each of them get out of serious financial and regulatory trouble.

I would respectfully ask that the Subcommittee consider using elements of MTW throughout the public housing continuum as a model. I believe that doing so would help all public housing authorities to serve their tenants and their communities better. The experience with MTW tells us that the program largely works for the public housing authorities *and* the tenants. More and better units are being constructed and tenants are receiving safer, more decent, affordable housing run by public housing authorities that are better run than they were previously. I respectfully suggest that financially stable public housing authorities with improved housing stock and mostly happier residents, which most, if not all MTW authorities, have accomplished, is the desired outcome for the future of public housing.

The HOPE VI program is an important part of public housing's future. As a private citizen, I have publicly stated that I support the HOPE VI program and would like to see it re-authorized. While I strenuously support HOPE VI, I would also like to see HOPE VI change.

When I was sworn in to office as Assistant Secretary for Public and Indian Housing at HUD in 2005, HOPE VI had around \$4.2 billion of unspent yet obligated funds. I am proud that our team at PIH reduced that amount to \$1.8 billion by the time I left office in January, 2008. Since I left, I understand that PIH has further reduced the amount to \$1.3 billion, which is a laudable effort. Many of the HOPE VI grants that had not been used were awarded ten years or more before my time in office. While it is widely known that the administration that I served disfavored HOPE VI, what most missed in the conversation about HOPE VI was the very legitimate reason that the administration disfavored the program. Specifically, so many of the HOPE VI grants had gone so long without being used. The fact that federal money that was granted, in many cases over a decade before I was sworn into office, but never spent or spent too slowly was an indication to many that HOPE VI was an inefficient program from the taxpayer's point of view. For HOPE VI to succeed, express and clear mechanisms need to be introduced to allow for grants to be redirected if they sit unused.

Soon, Congress will almost certainly contemplate reauthorizing HOPE VI again. As Congress does consider HOPE VI, what most of us who work in affordable housing hope is that Congress will tailor HOPE VI to focus on one thing: focusing resources, and leveraging the skills of the private sector, in order to replace blighted, obsolete, and inefficient public housing units with new more efficient affordable units. HOPE VI works well when there are the fewest possible moving policy parts that are unrelated to the construction of units. HOPE VI would work better if the focus were, largely, the construction of units and supporting the operations of those units once constructed.

One of the additional express legislative intents when the HOPE VI program was created was to de-concentrate poverty. An area of agreement on the issue of HOPE VI is that de-concentration of poverty remains a desirable and major policy outcome for the HOPE VI program, but the desired outcome needs to be supported by policy implementation. For example, perhaps a good policy result would be to allow the more expansive use of operating subsidy for some units, project-based Section 8 for other units, and allow the remaining affordable units to serve Americans earning 60% of area median income and below. Currently, such a subsidy mix, while possible, is very difficult because federal laws barring augmentation often construes such subsidy layering as being undesirable for the taxpayer. Moreover, the subsidy layering review process often acts as a time lag on construction which, in turn, holds up the availability of units. At a minimum, subsidy layering implementation should be further streamlined in the context of the public housing and Section 8 programs.

A final issue specifically involving public housing authorities that, if well addressed, will improve the future for public housing is a public housing authority's ability to maintain and increase technical capacity. Our nation's public housing authorities' employees are also aging and their replacements training is an essential part of the conversation about public housing's future. Moreover, many public housing authorities run on antiquated computers or no computers at all. Public housing authorities may not necessarily need

more people, but certainly could use better trained public housing professionals with access to better asset management tools.

Lastly, in order to work towards a brighter future for public housing generally, its regulator's functions and processes must improve. My former colleagues at HUD's Office of Public and Indian Housing do a great job considering the resources it at their disposal, but in order for PIH to do its work better, PIH and HUD must be redesigned to work smarter. The issue should not be whether or not there are enough people working at PIH to properly oversee public housing authorities. The issue should be whether HUD is working as well as it can cross-departmentally, not just interdepartmentally, using the right metrics, understanding the business processes, and accurately measuring desired policy outcomes to assure that it all is working well. In that respect, PIH and HUD need to change.

As I noted above, our nation is aging and our nation's aging population is already affecting regulatory capacity for the government generally and at the Department of Housing and Urban Development particularly. As I recall, as of the date of my resignation, over 60% of the full time employees in civil service at HUD are retirement eligible. I am certain that the percentage of those eligible to retire has only increased. I know that the proportion of retirement eligible employees is increasing at all agencies, but HUD is acutely and severely impacted by daily retirements. Substantial institutional memory and intellectual capital is retiring daily and that knowledge and history is not being captured as well as it could be.

One way to improve public housing's future is to improve enterprise wide and enterprise specific technology at HUD. HUD has two essential functions: to allocate the funds that Congress appropriates in the manner directed and to offer Congress data that is required by collecting that data to demonstrate that the taxpayer is being well served. HUD will perform those functions better if its technology infrastructure is carefully constructed in a way that allows HUD to work smarter. Technology changes quickly, becomes obsolete in months, not years, and HUD requires a consistent and well-supported technology platform that, over time, captures the data that help report on outcomes, direct policy implementation, and store institutional history. A program to continuously, thoughtfully, and consistently over a course of years invest in HUD's and PIH's technological assets, in addition to its human assets, would go a long way to helping make better policy decisions about public housing.

In summary, public housing is like any other business venture except more complicated because of its very public mission. In addition to the many successful changes embraced in the last decade, like asset management and MTW, the public housing world must continue to embrace its future and constant change. The importance of public/private partnerships in public housing's future cannot be overstated. Policies relating to building units, like HOPE VI, need to focus as much as possible on unit production and preservation. Many of those changes, such as our aging population and aging public housing assets, are inevitable and need to be addressed by public housing providers and regulators in order to assure a better future. Other changes are going to pose new

challenges, such as the positive effect of modern technology on a public housing authority's assets and business operations. Public housing needs the stability provided by local decisionmaking and the critical thinking that creates solid policy in order to assure a better future for everyone who relies on public housing for housing or operates public housing.

Again, thank you Madame Chair, Ranking Member Capito and members of the Subcommittee for providing me with the opportunity to submit this written statement in support of my testimony. As always, I am happy to answer any questions that the members of the Subcommittee may have.

Sincerely,

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