



Congress of the United States

House of Representatives

Subcommittee on Housing and Community Opportunity

Bob Ney, Chairman

Testimony of

Jon Gutzmann

Executive Director

Saint Paul Public Housing Agency

The State and Local Housing Flexibility Act of 2005

May 17, 2005

Thank you Mr. Chairman and Subcommittee members for holding this hearing on this important reform bill. My name is Jon Gutzmann. I am the Executive Director of the Saint Paul Public Housing Agency (PHA), a position I have held for the last 18 years. Previous to this, I was the Director of Public Housing for the Minneapolis Public Housing Authority for seven years. My testimony is given on behalf of the Saint Paul PHA and the 20,000 low-income households we serve. I speak both as a provider of affordable housing and as an advocate who has worked directly with and for the residents of public housing and the voucher program for the past 25 years.

We own and operate 4,300 public housing units and administer 4000 housing choice vouchers, providing safe, affordable, quality housing to over 20,000 people. We have been rated a public housing high performer (under PHAS) for 14 consecutive years and a voucher program high performer (under SEMAP) for four years. Our scores are often 100% for each program. We carefully screen applicants for admission into public housing, collect 99.5% of all rent charged, perform 35,000 work orders per year in an average of 2 days per work order, have been at 99% occupied for seven consecutive years in public housing and full utilization of Section 8 vouchers for four years, we have had zero financial audit findings for nine consecutive years, we fully expend capital funds over one year ahead of the HUD requirements, and much more.

I point to these accomplishments out of pride of course, but also to say that they are representative of most Public Housing Authorities in the nation. PHA's have been integral partners with the federal government in providing housing assistance for decades.

These authorities sponsor public housing, housing choice voucher programs or both that, in total, serve over 3 million low-income households. Owning over 13,000 apartment complexes, including over 1.2 million units, authorities house almost 3 million children, more than 500,000 seniors, and almost 2 million individuals with disabilities.

Public housing developments in particular are integral parts of most communities in America. A pharmacy in my hometown of Benson Minnesota sells post cards with a picture of their public housing senior hi-rise on it. Public housing hi-rises in Saint Paul have on-site management, live-in maintenance caretakers, visiting public health nurses, visiting case managers, buses to grocery stores and shopping malls, pharmacy delivery service, on-site church services, County-funded meals programs, and more. The notion that these are “warehouses for the poor” is as insulting as it is uninformed.

This bill (H.R. 1999) is the most important public and assisted housing legislation that has been considered since the enactment of the Quality Housing and Work Responsibility Act of 1998 (QHWRA). I agree with one of my colleagues who said it is virtually impossible to adopt an “all or nothing” position on legislation of this magnitude. Indeed, in any broad reform bill such as this, there are going to be provisions that one supports and other provisions that you do not. A simple conclusion that this bill is all bad or all good is premature to say the least.

The three industry groups are just beginning to discuss the bill in detail with their members. I support the general statement PHADA, CLPHA, NAHRO issued on May 11, 2005 relative to this bill, which supported the concept of housing reform, but had serious concerns about some of this solutions proposed by this legislation. I plan to spend a lot of time working with these groups seeking consensus on amendments or, if necessary, a new bill that preserves affordability and other safeguards for residents, enhances local decision-making, and ensures adequate and predictable funding. I hope you are open to considering ways we can work together to accomplish these goals, even if that takes several months.

I mention the funding issue in particular because this bill cannot be considered in isolation. Through PHADA, CLPHA, NAHRO, residents, advocates, property owners, lenders and other valuable partners, PHA's have consistently sought full funding for public housing, housing choice vouchers, the capital fund, Hope VI and other HUD programs. We have spoken with one voice in opposition to HUD's budget proposals over the past four years, budgets which have resulted in the loss of billions of dollars in funding for these programs. We have and will continue to fight to preserve and restore full funding. We have and will continue to press HUD to reinvigorate, not dismantle these crucial programs. The details of these funding requests are in the public record.

Yet, as affordable housing providers we are forced to be realists. Despite our concerted and collective efforts, our budget recommendations and requests have not had much success in Congress in recent years. Despite our best efforts, we lost funding for the very

successful drug elimination program several years ago and Congress has not restored it. Despite our best efforts, the voucher program has already been transformed through the Congressional appropriation process and HUD rule-making into a dollar-based versus unit-based program. Despite our best efforts, PHA's have been forced to eliminate programs and services and lay off staff because of the reduced funding for HUD. And as a nation, despite our best efforts, public housing and the housing choice voucher program, which together account for only 2% of all the housing units in America, still only serve about one out of four who qualify. I stand solidly with those working to preserve and increase the supply of affordable housing in America. I must also stand with my colleagues who are working hard to preserve our nation's 3200 PHA's because our continued existence is jeopardized by these profound and sustained funding cuts.

Because of the deep funding cuts to Saint Paul's public housing, capital, and voucher programs over the last three years, I have been forced to eliminate 10% of our staff, reduce voucher payments to owners by 7%, and scrimp on necessary capital improvements such as life safety systems in senior hi-rises. We have already sold off excess public housing land to Habitat for Humanity, borrowed against reserves to pay operating expenses, and significantly reduced housing assistance payments to voucher landlords. This is not a financial operating strategy that can be sustained by even the most creative or high performing Executive Director or PHA.

And for the record, I absolutely reject the Administration's contention that PHA's are to blame or just need to work harder to overcome these fundamental funding shortfalls.

There is no data that even comes close to supporting those wholesale generalizations.

On the contrary, our PHA essentially "invented" our solution to last year's voucher funding crisis where we initially faced a \$3 million funding shortfall (about 10% of our voucher HAP budget). We had to stretch the limits of allowable actions under existing HUD rules to deal with the loss of funds. We did so without canceling one voucher, but the inflexible program rules required us to shelve many vouchers to meet the reduced funding level. We were unable to issue a single voucher to a household on the waiting list throughout all of 2004 because of this crisis. This much-heralded, private sector modeled, voucher program is not nimble enough to allow PHA's to appropriately respond to the ups and downs of the private sector rental housing market. In that general context, I agree with HUD that some voucher program reform is necessary although I disagree with many of their specific remedies.

I also disagree with "blame the tenant" sentiments expressed before this body. We have 20 years of data at the Saint Paul PHA that confirm that residents in our public housing and voucher programs stay in this assisted housing on average six years. We agree with members of this committee that most if not all families are working hard to move up and out. And we agree that most elderly and individuals with disabilities need a permanent affordable place to call home. Even so, the elderly and individuals with disabilities "group" also stays with us an average of six years, generally due to hospitalization,

nursing home placement or death. I don't think HUD has specific data to back the assertion that public housing and/or voucher tenures are increasing across the nation from what they were a few years ago. There is data that demonstrate that the number of poor people in America has grown in the last few years and that more people are severely rent burdened (paying more than 50% of their income for rent) than a few years ago.

But most importantly, we all should remember that the "bargain" struck between Congress/HUD and PHA's under the terms of the Housing Act of 1937 (and subsequent amendments) is that PHA's will house low and very low income households, Congress/HUD will provide annual operating subsidies to make this housing affordable to tenants, and (this is the part folks keep forgetting) Congress/HUD will provide sufficient annual operating subsidies to make PHA's whole. There is no magic involved here. Deeply affordable housing is only possible if Congress provides deep subsidies to PHA's or directly to tenants.

At the Saint Paul PHA, the average cost to operate a public housing unit is approximately \$600 per month. Rents average about \$200 per month (based on the 30% of income formula, which translates into rents that are at about 20% of our Area Median Income). Our PHA must receive \$400 per month, per unit from HUD (\$200 per month, per unit in operating subsidy and \$200 per month, per unit capital funding subsidy) to remain viable. Congress and HUD do not keep their end of the bargain when this subsidy level is reduced, especially when Congress prevents PHA's from doing anything on the income side. Don't get me wrong. Our PHA prefers to keep the historical bargain and operate

the program for the benefit of the lowest income households in Saint Paul. But Congress and HUD must do a better job of providing adequate, predictable (and deeply subsidized) funding for this to “pencil out” for the PHA.

If you want “Progressive” rules, then provide “Progressive” funding. If we have to live with “Conservative” money, then let’s work together to reform some of the rules. We can do this while preserving affordability and removing barriers or disincentives to employment, as MTW sites such as Keene New Hampshire and elsewhere have demonstrated.

It seems that some advocates are prepared to wage all-out battle against anyone who supports even reasonable program reform. This is apparently based on the theory that if the money is insufficient, it is better for PHA’s to sell off public housing units and cancel vouchers in order to survive than to agree (even after local stakeholder consent) to even modest increases in tenant contributions; that this “selling off and canceling” approach will somehow create a critical mass of suffering and outcry; that this will then lead to a change in the administration (or at least a change of heart); and that this will lead to the restoration of the funding and units PHA’s had to sell in order to survive.

The proposition described above is unacceptable to me as a housing provider and advocate. I am in the business of keeping people in affordable housing. And to my knowledge, the last time new public housing units were added to the nation’s supply was in 1986. Since then, through Democratic or Republican administrations, no new public

housing has been produced. And I believe that no “incremental” or new vouchers have been added to the supply since the late 1990’s.

I also agree with Sheila Crowley of the National Low Income Housing Coalition that the public housing and voucher programs are not broken, that costs have not spiraled out of control, and that this nation “can afford” to keep this safety net program intact and deeply affordable if we wanted to, rather than, for instance, enacting another \$109 billion in tax cuts.

But we don’t seem to want to do that as a Congress or a nation. And at the end of the day, my PHA colleagues and I still have to balance the books and try our best to fulfill our missions. The Saint Paul PHA’s mission is to help families and individuals with low incomes achieve greater stability and self-reliance by providing safe, affordable, quality housing and links to community services.

To reiterate, the public housing and voucher funding is insufficient today despite the best collective efforts of our leaders, residents, advocates, other stakeholders, and many supportive and caring members of Congress. What is on the horizon looks even worse. Other federal government actions underway that threaten the existence of PHA’s include the unilateral OMB-sponsored changes to the operating fund rule which the industry groups and HUD negotiated in good faith a year or so ago. Those changes would result in some PHA’s losing 40% to 50% of their annual operating subsidy in one year, as the “stop loss” provision was unilaterally removed from the agreement.

Also, HUD's proposals on project-based accounting and project-based management will usher in a host of new regulations and financial burden to PHA's while purporting to emulate "private sector" asset management principles. However, because the law prevents any adjustments by PHA's to the "income side" of the ledger, this model is of course completely inconsistent with the real world of private sector asset management (a crucial point lost on the authors of the Harvard Cost Study).

These disturbing funding realities have already forced PHA's to make difficult choices. If additional tough decisions are required because of continued "bad" money and negative regulatory trends, shouldn't those tough decisions be made at the local PHA level and not in Washington DC? Shouldn't a painful decision about how to cope with a 40% to 50% loss in operating funds at a particular New York state PHA, for instance, be made by that New York state PHA in conjunction with its stakeholders? And if one of the locally determined options involved consideration of the need to raise minimum rents, and residents at that PHA agreed this was necessary to preserve the public housing or voucher program and the viability of the PHA, shouldn't that be allowed to occur? If you say "no" then please be logically consistent and send that PHA a check. Or agree to house the families that PHA will be forced to displace because the federal government says the revenue side of the ledger is "off limits" to local officials.

If PHA's are not allowed to improve the income portion of the equation, then Congress surely must. That's the historical agreement. If Congress cannot do anything to increase

funding because supportive members don't have the votes, and if supportive members cannot allow themselves to do anything on the "rent burden" side of the ledger because of admirable principles, then the debate must turn to proposals to keep PHA's solvent. Advocates and supportive members of Congress must be willing to help craft specific PHA survival strategies if the difficult discussions about reform and rent burden are off the table. Will they? Ignoring that aspect of this debate would not be intellectually honest or fair.

Some argue that passing this reform bill will result in the loss of significant amounts of affordable housing for low-income households. PHA's worry about that too and will be at the table with members of Congress, residents, and advocates to kill or amend those harmful provisions.

But PHA's are forced to worry right now that a "world" without program reform coupled with a "world" of inadequate funding will likewise lead to the loss of affordable housing for low-income households. This will happen if under-funded PHA's are forced out of business. We need and ask for your help in addressing that problem too.

With that said, my comments on the three main titles of the bill are as follows:

1. Title I. I think it makes a lot of sense to give PHA's more latitude in how they set individual rent subsidies in the housing choice voucher program. Although I understand that owners may object to the lack of uniformity this would create, allowing locally

determined voucher payment standards would be one important way in which PHA's can adjust voucher program costs in fluctuating private markets.

Other provisions in this Title that have some appeal, but require closer scrutiny include: less frequent inspections (but allow even more flexibility – the Saint Paul PHA could utilize our City's Certificate of Occupancy inspections more fully); less frequent eligibility reviews; making FSS an option, not a requirement; the real estate ownership prohibition; keep Section 8 in the Agency Plan; allow, don't require, Section 8 participant on PHA Boards; and don't give "voucher-movers" from project-based-assistance sites first priority for all available vouchers, allow local flexibility.

In my opinion, the following proposals should be eliminated from the reform bill or substantially re-worked with stakeholder involvement: creation of term limits, curtailing enhanced vouchers, revised income targeting provisions, and restrictions on portability.

Another overriding flaw in this section of the bill is the lack of a clear funding formula for both Housing Assistance Payments and a PHA's administrative fee. As PHADA says, "HUD basically punted on this component, temporarily funding PHA's using a current 'snapshot,' leaving future decisions completely up to negotiated rulemaking. As we have learned all too well in recent weeks, negotiated rulemaking may not be the best way to make such important decisions. It is essential for PHA's to have predictability to run their voucher programs effectively. Accordingly, PHADA believes an equitable and transparent funding formula must be included in the statute."

A final flaw of this Title is that the bill is silent on what the voucher performance assessment system would look like. This should be corrected in the statute after close consultation with the three industry groups.

2. Title II includes many of the housing industry's recommendations to simplify and reform the existing rent system. I hope these will become law. The bill would give PHA's four options (for both the public housing and housing choice voucher programs): keeping the existing "Brooke" methodology, allowing for the establishment of flat rents, allowing PHA's to use a percent of gross income methodology, and allowing for the creation of a flat tiered rent system similar to that found in tax credit projects. I especially support the use a percent of gross income methodology, and allowing for the creation of a flat, tiered rent system, as these provisions would help remove the work disincentives in the current law while making it easier for PHA's to calculate rents. Also, these provisions would make the rent system more equitable for all assisted housing residents. Brooke rents, percent of gross income rents, and the flat, tiered rent system also ensure that affordability is maintained. The "flat rent" provision should be removed as it could produce outcomes that are not affordable.

3. Title III would expand the successful Moving to Work (MTW) program by exempting more PHA's from various federal housing laws and regulations. Many PHA's support as much devolution to local agencies as possible. However, HUD does not have

the capacity to deal what could be up to 1000 new MTW agreements. I recommend that this provision be scaled back to an additional 100 to 200 PHA's becoming eligible for MTW status. I recommend that the bill keep the "High Performer" requirement and minimum program sizes as proposed by HUD. The bill should allow for HUD pre-approved templates for MTW sites as the Urban Institute and PHADA recommended. Guidance is needed on the MTW performance evaluation system.

Thank you for your time and consideration.

Jon Gutzmann

May 17, 2005