



**Testimony on the Administration's Section 8 Voucher  
Block Grant Proposal  
before the  
House Committee on Financial Services  
Housing and Community Opportunity Subcommittee  
by  
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Chairman Ney, Representative Waters, and members of the Subcommittee, thank you for the opportunity to testify on the Administration's proposal to block grant Section 8 voucher funding to the states.

I am Barbara Thompson, executive director of the National Council of State Housing Agencies (NCSHA). NCSHA is a national nonprofit organization that represents the Housing Finance Agencies (HFAs) of the 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

NCSHA is grateful to you, Mr. Chairman, for stepping forward in defense of the Low Income Housing Tax Credit (Housing Credit) when it was threatened by the Administration's dividend tax relief proposal. Thanks to your intervention and that of Representative Frank and other members of this Subcommittee, Housing Credit apartment production will not be lost under the recently enacted jobs and growth tax bill.

Now we ask your help in enacting the Housing Bond and Credit Modernization and Fairness Act of 2002, H.R. 284, to assure families qualified for Housing Credit and Bond help receive it. H.R. 284 would repeal the Mortgage Revenue Bond (MRB) Ten-Year Rule, update MRB purchase price limits, and make Housing Credit development viable in very low-income, predominantly rural, communities. The Ten-Year Rule alone costs states more than \$3 billion annually in low-cost MRB mortgage money that otherwise would be available to help working families buy their first home.

Thank you, Chairman Ney, and the 20 other members of this Subcommittee who have cosponsored H.R. 284. If you have not cosponsored this essential legislation, we urge you to join the 253 House members who have. We ask you all to press the House and Ways and Means Committee leadership to enact H.R. 284 in a tax bill this year.

NCSHA also thanks you, Chairman Ney, for introducing the Housing Assistance for Needy Families (HANF) Act, H.R. 1841. NCSHA neither supports nor opposes this legislation. Though we support a Section 8 voucher block grant in concept, we have taken a neutral stance on the Administration's plan because of our serious concerns about the adequacy of the program funding and administrative flexibility it proposes. We believe, however, the Section 8

voucher program requires reform and HANF is a restructuring proposal worthy of Congress' and the affordable housing community's close examination.

### **Section 8: A Linchpin of Federal Housing Policy**

The Section 8 voucher program is one of our most important federal affordable housing programs. Vouchers make it possible for some of our lowest-income and most vulnerable individuals and families to afford decent rental housing. Vouchers make unsubsidized housing and housing financed with Housing Credits, HOME, and other federal subsidies affordable to very and extremely low-income families.

The Section 8 voucher program is not meeting its potential. The program's complex rules and regulations block innovation, drive up costs, discourage private sector involvement, and confuse customers and administrators. The extreme decentralization of funding to more than 2,500 public housing authorities (PHAs) complicates program administration, increases administrative costs, prevents maximum utilization of funds, and frustrates implementation of regional and statewide housing and related services initiatives. One symptom of these problems is the \$1 billion or more in unused voucher budget authority Congress rescinds annually—funding forever lost to affordable housing and the people eligible to receive it.

### **The Benefits of State Administration**

If implemented with sufficient funding and flexibility, HANF would resolve many of the current Section 8 voucher program's problems. HANF also would create new opportunities for voucher use not possible under the present system.

States have the capacity to administer the voucher program. State HFAs possess a multi-decade record of responsibility, effectiveness, accountability, and success in administering tens of billions of dollars of housing assistance. They possess statewide focus and sophisticated finance, underwriting, asset management, and administrative oversight capability. State HFAs are investment grade rated, financially sound institutions.

State HFAs successfully allocate the Housing Credit and issue tax-exempt private activity bonds (Bonds) to finance apartments for low-income renters and mortgages for lower-income homebuyers in nearly every state. Using Housing Credits and Bonds, they have helped finance 2.3 million affordable apartments and 2.3 million first-time homes.

State HFAs administer HOME Investment Partnerships (HOME) funding in 42 states. Through HOME, they have financed more than 250,000 apartments and homes, assisting over 30,000 families with HOME-financed tenant-based rental assistance.

State HFAs also partner successfully with HUD in the administration of FHA/HFA risk-sharing, Section 8 restructuring, homeless assistance, and housing counseling.

Many states already successfully administer Section 8 assistance. Forty-three state HFAs administer Section 8 project-based assistance, providing housing support to more than 600,000 families. Thirty-five state agencies administer more than \$1.1 billion in voucher funds, serving approximately 175,000 families. No state HFA is on HUD's list of PHAs troubled under the Section 8 Management Assessment Program.

States are uniquely positioned to administer federal housing resources. They understand local housing needs and markets, while bringing a state and regional perspective to problems that cannot be solved within municipal boundaries. States can ensure housing funding is applied where it is most needed and integrated with other public investments in their physical, economic, and human infrastructure.

States are the only point where all federal and state housing resources—Housing Credits, Bonds, HOME, Section 8, Federal Home Loan Bank advances, FHA insurance, and state-provided funds—can be accessed in one place and brought to bear in a coordinated manner on housing needs.

Moreover, states have the ability to bring together state agencies and resources in ways the federal government and local communities cannot. State HFAs have partnered, for example, with welfare agencies to use Temporary Assistance to Needy Families (TANF) funds to provide housing assistance to families attempting the transition from welfare to work. They have teamed with state health and human services agencies to obtain Medicaid waivers to cover the cost of services in HFA-financed assisted living facilities. State HFAs work with state departments of mental health and retardation to link affordable housing to supportive services for people with mental illness and retardation.

State HFAs also successfully partner with local governments, non-profits, the private sector, resident and community groups, and service providers to address the unique and diverse housing challenges they confront. Because they operate on a business-like basis, state HFAs have proved extraordinarily entrepreneurial in using the resources available to them to meet community needs.

The voucher program, adequately funded and rationally regulated, would benefit from state administration. States' statewide focus, knowledge of local housing markets, access to other housing and non-housing resources, ability to respond to changing local circumstances and prioritize housing needs across their states, and administrative capacity would overcome many of the current program's limitations.

Through comprehensive and coordinated state, regional, and local planning, state HFAs would assure vouchers are used where they are most needed and in sustainable communities with access to jobs, transportation, schools, and health and other services. This is critically important because successful housing today means much more than merely shelter. Low-income families and those with special needs require services and proximity to economic opportunity to have the best chance of achieving self-sufficiency and a stake in their communities.

State administration would eliminate the confusion caused by overlapping local jurisdictions, provide greater administrative efficiency, and allow for easier portability of vouchers from one area of a state to another. States would be able to coordinate statewide voucher waiting lists, respond more quickly to changes in local rental markets, and shift voucher funding to areas of the state that need it most or can use it most efficiently. State administration would also allow states to couple rental assistance—tenant- or project-based—with other state-administered housing and non-housing assistance.

Federal oversight would be more effectively and efficiently concentrated on 50 entities than on more than 2,500 PHAs. HUD recognized this in limiting to the states administration of its 850,000 unit Section 8 project-based portfolio.

### **Adequate Funding Is Essential**

HANF must not become an under-funded state mandate. NCSHA shares the concern voiced by many other housing organizations that HANF as proposed would be vulnerable to future funding cuts or insufficient funding increases.

H.R. 1841 offers states no assurance that Congress will maintain its commitment to fully fund authorized vouchers and accommodate increased voucher renewal costs over time. The bill authorizes appropriations of “such sums as may be necessary,” but does not specify how much funding states would be provided or how that funding would be adjusted from year to year to account for housing cost increases.

We urge Congress to safeguard vouchers and the low-income families who depend on them by authorizing mandatory voucher spending in an amount at least adequate to finance all currently authorized vouchers. Only through mandatory funding can states be sure the federal government will maintain its commitment to this lifeline program.

Authorizing legislation also must specify that funds would be adjusted annually to cover housing cost increases. Housing cost increases continually outstrip rises in the general Consumer Price Index (CPI). If in future years, this trend continues and Congress either level-funds HANF or increases HANF funding only by the CPI or some other index not reflective of housing cost increases, states would be forced to serve fewer families, serve higher-income families, or require families to contribute more of their income for rent.

Congress also should provide sufficient funding for additional families to be served. According to Harvard University’s Joint Center for Housing Studies’ 2001 report, one out of every eight American families spends more than 50 percent of its income for housing. Currently, only about one in four voucher-eligible households receives any form of federal housing assistance.

In the face of this staggering need, funding for new incremental vouchers has dropped off dramatically in the last few years. As recently as FY 2001, Congress funded 80,000 new incremental vouchers. Last year, it provided none.

NCSHA also urges Congress to provide states administrative funding sufficient to cover their costs and effectively run the program. H.R. 1841 limits administrative fees to no more than 10 percent of a state's total grant amount, which may not be adequate.

States would perform many administrative functions now carried out by HUD and paid out of its administrative budget. These tasks include promulgating program rules; managing funding systems; surveying and establishing rents; overseeing PHA performance; enforcing compliance; and hiring, training, and compensating staff. In addition, states would need to comply with HUD oversight and reporting requirements and compensate local PHAs and other entities they retain to help administer the program.

A truly flexible program operated with minimal HUD oversight and interference may be less costly to run than the existing program. However, a careful analysis of state administrative duties is necessary to properly judge the cost of state administration.

### **Flexibility Is Key to Success**

To work, HANF must be a flexible program, free from unnecessary and onerous federal requirements. HUD regulation must be limited to that which is necessary to assure nondiscrimination and accountability for the use of funds to achieve the goals Congress sets. Irrational and unnecessarily burdensome rules, regulations, and reporting requirements will frustrate states and their partners, smother creativity, and delay results.

H.R. 1841 would give states more flexibility than current law allows. Under the new structure, states could make several positive changes, such as adjusting payment standards in specific neighborhoods to give tenants increased access to high-cost markets with better job and education opportunities, improve recipient success rates, prevent improper rent subsidization, and increase landlord participation. States could move unused vouchers from area to area more readily.

Though we understand HUD intends to give states the flexibility to project-base block grant funds, the legislation does not make this clear. With greater flexibility to project-base assistance, states would be able to serve certain markets and recipients with special needs more effectively than under the current program. For example, the current program prohibits project-basing vouchers in high-poverty areas and project basing more than 25 percent of a building's apartments. With the elimination of these well-intended but arbitrary rules, states could more effectively use project-based vouchers as part of neighborhood revitalization strategies and to assist families seeking decent affordable housing in low-income areas where supportive services may be more readily available. States also would be able to support chronically homeless tenants in supportive housing.

The legislation also contains many requirements inconsistent with HUD's goal of limited regulation and maximum state flexibility. For example, HANF retains the current program's requirement that PHAs conduct inspections of potential units prior to committing program funds to owners. This requirement makes it difficult for voucher holders to compete with unsubsidized renters in securing apartments and discourages owner participation in the

program. If states determine properties or owners and managers are consistently providing decent housing, they should be able to allow voucher recipients to occupy those apartments immediately and inspect them later.

NCSHA is particularly concerned about the bill's arbitrary policy-oriented performance standards. We whole-heartedly agree states should be accountable to HUD to administer funds without fraud, waste, or abuse. While some of the bill's standards are fair indicators of administrative performance, others would compel states to respond to federal priorities rather than their own.

Performance measures should be limited to those reflective of funding utilization, financial management, and compliance with statutory requirements. States should be free to determine their own additional performance objectives.

H.R. 1841 would impose a \$50 minimum rent for tenants and only allow states to grant case-by-case hardship exemptions. States should have the discretion to set their own minimum rent policies.

H.R. 1841 would allow HUD to withhold a state's HOME or other HUD program funding if it finds the state in noncompliance with HANF requirements. A state's HANF performance is irrelevant to its performance under other HUD programs. Withholding HOME or other HUD funding would only penalize the state's low-income residents who stand to benefit from that funding.

In conclusion, exploring ways to improve the Section 8 voucher program is timely and appropriate. A block grant to states merits Congress' consideration. NCSHA is available to assist you in that effort.