National Leased Housing Association
serving America's rental housing needs
NLHA

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Mr. Chairman and Members of the Subcommittee, my name is Craig A. Garrelts and I am executive director of the Hocking Metropolitan Housing Authority, located in Logan, Ohio. I am representing the National Leased Housing Association, whose members include both owners and managers of Section 8 housing as well as public housing agencies that administer the Section 8 voucher program. We appreciate the opportunity to testify on H.R. 1841, the Administration's block grant or HANF program, which is proposed as a replacement for the Section 8 voucher program. We urge the Subcommittee to reject this proposal. It is a rash proposal, advanced under the guise of reform, that can damage a form of housing assistance that has had decades of bipartisan support.

The Section 8 subsidy has been a powerful and versatile tool for almost 30 years. It can serve the very poorest who need substantial help to those who only need shallow assistance to live in decent and affordable housing. Among its specialized functions, Section 8 has been used to replace older forms of subsidy that are less flexible and in the process preserved older projects and improved affordability for tenants. In addition, over 100,000 tenants, many of them elderly or disabled, have been able to remain in their units after project-based assistance was terminated, through the use of enhanced vouchers. All told, over 1.9 million families receive rental assistance from Section 8 certificates and vouchers. Section 8 has been the most successful housing assistance program of any housing program at any time. The major problem with it is that there isn't enough of it.

Recently, it has become common to complain that all the funds appropriated each year for Section 8 vouchers have not been used. Until this year, appropriations were sized based on an assumption that every authorized voucher and certificate would be under lease and for a full 12 months. No one expected this to occur and funds were routinely recaptured and rescinded. The rescissions reduced the costs of each year's appropriations to the amount actually used in the program, so there was no ongoing adverse fiscal impact from this method of calculating appropriations. When a problem did arise, it was a result of disagreements within the Appropriations Committees and the taking of the rescissions to offset non-housing appropriations. For fiscal year 2003, and presumably beyond, the appropriators have taken actions to minimize recaptures and therefore the potential loss to housing programs of Section 8 rescissions being allocated for other uses.

The important issue is not recaptures and rescissions, but getting the most families assisted as possible within the authorized level of vouchers assigned to each community. Here, action by the voucher administrators and by HUD have steadily improved utilization rates. Industry groups and HUD have encouraged administrators, primarily local public housing agencies, to take aggressive steps to increase leasing rates, including distributing more vouchers than they have to prospective tenants in the expectation that enough families will find units to lease to use all the authorized vouchers. Some administrators are even more aggressive and intentionally overlease, on a temporary basis until turnovers can lower utilization, as the best way to achieve high annual utilization rates. National utilization rates have risen from around 91 percent two years ago to 95.3 percent as of January 2003. We look forward to further improvement, but there is by no means a program failure here.

Rather, we believe the HANF proposal, if enacted, would be a true failure. HUD says that Section 8 has grown too complex and that a block grant to the States would be simpler. On the contrary, if this proposal is enacted the current program would remain the major program for several years, with all its so-called complexity, and one or two additional programs with different rules would co-exist with it. How is it that less complex?

To illustrate, all tenant-based voucher holders would be grandfathered for 5 years under all the terms and conditions of Section 8, and holders of project-based vouchers and those receiving homeownership assistance would be grandfathered for 10 or more years under the old rules. Assuming 1.9 million families are grandfathered and the annual turnover of grandfathered tenants is 10 percent, at the end of the first year 1.71 million voucher holders would be covered under the current system, while 190,000 turnover vouchers would be available for the States to fill should there be sufficient appropriations. By the end of year 5, about 1.1 million vouchers would still be covered under the current system. At the end of the five-year period, about 800,000 turnover vouchers would be available under the block grant program, to be utilized if sufficient appropriations are available.

In addition to these two differing coexisting programs, HUD would assume responsibility for the State program wherever a State declined to participate, an election that should be widespread. For the existing program, HUD would have to continue to calculate fair market rents for each local area to establish parameters for maximum subsidy amounts. Presumably it would use the same calculation for the States where it assumed responsibility for the block grant, although it would not be required to do so. What method the States use to calculate maximum subsidies is left to each State's discretion by the legislation. HUD's calculation of fair market rents also is used as a benchmark for rents in other programs, such as the HOME program.

HUD complains that Section 8 requires it to deal with a large number of local public housing agencies. These are the local hands-on administrators who among their many duties screen and select tenants, check their incomes, find and deal with landlords who agree to participate in the program, inspect units for housing quality standards and to meet lead-based paint requirements, determine maximum subsidies within HUD established parameters, and

select and negotiate with owners who wish to use project-based vouchers. Section 8 requires that these agencies be the administrators of the voucher program unless none exists in an area or they decline or are unable to perform the requisite functions. The language of H.R. 1841 would result in the continuation of this administrative structure for the grandfathered voucher holders, with the exception that an additional layer, with associated costs, would be added in the movement of funds from HUD to landlords, and that, of course, would be the State (except where the State declines to participate at all).

Even if the use of public housing agencies were not required for the administration of the grandfathered vouchers, it would be expected that most of the existing infrastructure for the program would be retained, since any significant replacement would be costly, time consuming, complex and disruptive.

After the 5-year grandfathering period ends, over a million families could face chilling prospects. The bill authorizes States to establish time limits on the continuation of assistance. That could happen immediately or after a set period of time subsequent to the end of the grandfathering period. Even if assistance is continued, these families would face an immediate and substantial rent increase. First, the minimum tenant rent contribution would be changed from 30 percent of adjusted income to 30 percent of gross income, as defined by each State. At the low income levels that prevail among the voucher population the change to a gross income standard could have a substantial impact. For example, a single parent with four children with a gross income of $12,000, could have after deducting the current allowance of $480 per child and $500 in minor child earnings an adjusted income of $9,580. A rent contribution based on a gross rent of $12,000 instead of adjusted income of $9,580 would result in a 25 percent rent hike for the family.

Secondly, there is no assurance that the payment standard established by each State would be as high as the payment standard previously applied under Section 8. If the maximum subsidy is less under the State program, the tenant might have to cover the difference out of its pocket of find another place to live with a lower rent, if that were possible. H.R. 1841 states that no tenant would be required to pay more than 30 percent of its gross income for rent, unless it desires to secure better quality housing. This is a meaningless statement because it is made in a vacuum, without knowledge of the standard a State will use to determine maximum subsidy. Each State is free under the bill to establish its own standard, without statutory or regulatory guidance or parameters.

One of the functions of Section 8 vouchers I previously mentioned is for tenant protection where project-based assistance is terminated. Each year funds are appropriated for HUD to renew previously issued tenant-protection (or enhanced) vouchers and to fund new vouchers issued during the course of the upcoming fiscal year as project-based subsidies end. H.R. 1841 would have the effect of terminating existing requirements in Section 8 for providing enhanced vouchers after FY 2004. Additional appropriations are authorized to maintain or grandfather tenants “previously receiving such assistance in that State”, but States would not be required to issue new enhanced vouchers. States would have the flexibility to continue the enhanced voucher protection but there is no assurance that any particular State would do so. A State, for example, might provide its regular assistance to tenants losing the benefit of project-based

subsidies but not the enhanced form available under Section 8 under which subsidy levels can be as high as market rent, thus enabling a tenant to remain in the building rather than being dispossessed and having to find another place to live.

While tenants may get the short end of the stick under H.R. 1841, what about landlords? We need as many landlords as possible to participate, in all market areas, if the program is to be successful. Unfortunately, under the bill landlords will face multiple subsidy structures, even in the same building, as they serve both grandfathered and new voucher holders. Landlords not currently in the program may be dissuaded from participating if they are faced with two different payment standards, two different definitions of income, two different income recertification procedures, and perhaps two separate program administrators. Landlords with properties in several or numerous States would face the added burden of dealing with variations from State to State. Further, to the extent a State's payment standard is low or if the State sets a time limit to assistance, landlords would encounter additional tenant payment problems, lost rental income, additional turnover expenses, and more eviction proceedings, altogether a disincentive to participate in the program.

Finally, I would like to say a few words about the project-based voucher program. Final regulations for a newer version of this program are about to be issued by HUD and the program shows promise of expanding into a significant contributor to much needed site-based subsidized housing. H.R. 1841 treats new project-based assistance under the State program obliquely, if at all. If project basing is made eligible under HANF the terms could be entirely different than the program just being put into full operation by HUD. Lenders, tax credit syndicators, developers and owners would be faced with potentially up to 50 different project-based programs just after they have become comfortable with the uniform, national program implemented by HUD, thus dampening their willingness to participate. For projects already in existence, owners would be burdened by having grandfathered and new tenants subject to varying sets of rules.

In conclusion, HANF is a radical proposal with the potential for serious harm. It is unnecessary and unwise to destroy the Section 8 voucher program in order to improve it. Thank you for the opportunity to present the views of the National Leased Housing Association.