Testimony of Neil Molloy
Executive Director, Housing Authority of St. Louis County, Missouri
on behalf of the
Public Housing Authorities Directors Association (PHADA)
Before the U.S. House of Representatives
Subcommittee on Housing and Community Opportunity
Honorable Bob Ney, Chairman
June 10, 2003

The Public Housing Authorities Directors Association (PHADA) represents over 1,900 men and women who serve as chief executives of public housing authorities (HAs). HAs are independent state-chartered political subdivisions with locally appointed boards, and act to support housing quality and affordability in their communities. They serve as the primary administrators and deliverers of low-income public housing and of Section 8 Housing Choice Vouchers (HCVs) within their jurisdictions, and some have performed these services since the Great Depression. HAs serve as the customer interface for a large share of federal housing assistance and they act as significant partners with the federal government in implementing federal housing policies.

PHADA is grateful for the opportunity to offer testimony concerning President Bush's Housing Assistance for Needy Families (HANF) proposal to the House Financial Services Committee's Subcommittee on Housing and Community Opportunity. Chairman Ney graciously sponsored H.R. 1841 at the administration's request in order to introduce these proposals for public discussion, and PHADA is eager to participate in that debate. With deference to Chairman Ney, PHADA will refer to HANF, embodied in H.R. 1841, as HUD's proposal.

PHADA remains unalterably opposed to HUD's fundamental recommendation that the Congress restructure the HCV program into a block grant to the states. This deconstruction of one of the best examples of successful housing assistance delivery in HUD's inventory of programs is at best ill advised and at worst a cynical attempt to withdraw from the historic federal commitment to encourage housing quality and support housing affordability.

HUD's proposal is based on a set of flawed justifications that include:

- Superficial, misleading similarities between the HCV Program and TANF,
- Misunderstood differences in the welfare and housing assistance delivery systems,
- Devolution to the wrong level of government,
- Disregard for Congressional solutions for the recapture problem, and
- Unsupported claims of current inefficiencies and future efficiencies.

Based on these faulty assumptions, HUD's proposal would disrupt current program operations in favor of an alternative that adds little value to the HCV program and raises the specter of chaotic, pointless change.

How firm the foundation?

HUD's justifications for this proposal have three sources, ideological, policy and administrative.

Ideological sources

The TANF connection

HUD's practice in naming this proposal reflects its belief that the HCV Program simply represents a federal income support effort that parallels the old Aid to Families with Dependent Children (AFDC) Program, reformed as Temporary Assistance for Needy Families (TANF) under the previous administration. PHADA disagrees with this characterization of the HCV Program. Although it contains elements of income support, the program's impacts reach far beyond simply providing the wherewithal for impoverished families to pay rents they can afford. The program:

- Helps maintain rental housing quality in the national housing stock,
- Helps constrain rental housing cost inflation,
- Offers lease protections for poor families not always otherwise available,
- Contributes to socio-economic integration of rental housing,
- Offers poor families a degree of mobility not previously available to them, and
- Contributes to the capitalization of rental and owner occupied housing that becomes available to low- and moderate income families.

These purposes and impacts reach far beyond the purposes and impacts envisioned for the AFDC Program or its TANF successor.

Institutional question

In addition, the delivery network for the HCV Program is radically different from the set of institutions that deliver welfare benefits to poor families. The AFDC Program already delivered cash benefits through existing state organizations under two models of service delivery. In some states a department of state government delivered AFDC (now TANF) benefits through local offices of the state department. One administrative entity had complete authority, control and responsibility for program administration. In other states, a department of state government delivered benefits through a series of departments of local (city or county) government. In both cases, the fundamental federal relationship was and had always been with a department of state government. In addition, every institution involved in delivering welfare benefits was a department of either state or local government.

None of these characteristics pertain to the delivery network for the HCV Program. In very few cases (e.g. Alaska, District of Columbia, Guam, Puerto Rico, U.S. Virgin Islands) does HUD contract with a department of state government for provision of all HCV benefits within the state. In a minority of states (14), no such state department exists. In the majority of states (34), a state department exists with responsibility for <u>limited</u> HCV service delivery, often to areas not otherwise served by a HA. In no case do existing state departments have the administrative capacity or the network of service delivery sites or customer contact points that are needed to administer a statewide HCV program.

The existing customer contact points for the HCV program (HAs) are institutions independent of both state and local government. They are versions of special districts, lacking the power to tax and spanning the boundary between the public and the private sector. Unlike the bureaucratic, top-down models for delivery of welfare benefits in which there are clear chains of command, HCV benefits are delivered to customers through a much more complex web of mutually independent institutions collaborating to accomplish a common policy goal. One advantage to this kind of delivery network is its capacity to respond to multiple, often competing, demands from varying levels of government and from diverse sets of interests. HAs are responsive to demands and pressures arising from communities in ways states cannot be.

Federalism and the states

The administration may be ideologically interested in strengthening the roles of the several states and acting more in partnership with than in patronage over the states. This laudable goal, respecting mutual sovereignties and divergent interests, promises to work well in reforming a policy delivery system such as welfare where an institutional and administrative network is in place to carry out the transition. In the case of HCV, the administration's goal will require the construction of such an institutional and administrative network, and then will require an orderly transition from the current system to a state block grant delivery approach. PHADA is convinced that parallels between the AFDC and HCV programs are more apparent than real, and that transitioning from the current delivery network to one each state will create from whole cloth will be destructively chaotic for a program all admit is largely successful in its current form.

Policy sources

Voucher holders and welfare

HUD's policy sources for its HANF proposal are described in H.R. 1841 and are threefold. First, HUD argues for a tight linkage between HCV housing assistance and the self sufficiency efforts embedded in TANF. Although ongoing self sufficiency efforts HAs have undertaken often made counseling and other supportive services available to eligible HCV users, only 20 percent of HCV holders receive TANF financial support, and only 13 percent rely primarily on TANF for their income. Approximately 34 percent of HCV users are elderly and/or disabled households for whom self sufficiency concerns are inappropriate. More than half of HCV users rely for a significant portion of their incomes on earnings. These households are already well on their way to achieving self sufficiency and are generally ineligible for TANF. Tightly linking HCV assistance and TANF will only be of benefit to a small minority of voucher holders. HUD's argument for closely linking the programs relies on a common misconception that most users of assisted housing are welfare recipients. That is a false premise.

The disappearing recapture problem

Second, HUD argues that fund recaptures have prevented the HCV program from serving several hundred thousand potential HCV participants, and responsibility for these recaptures lies with current administrators. PHADA and its members have always supported efforts to improve the utilization of HCV funds and have suggested steps at various times that would help improve utilization. Utilization of HCV funds continues to rise.

Last fall, PHADA estimated that the national utilization rate exceeded 95% of allocated vouchers, a rate now confirmed by HUD. In recent testimony concerning HANF, the Department seemed to acknowledge that recapture of funds is no longer a problem. Even if it were, HUD has had tools available to it for several years that could have reallocated underutilized funds to HAs or other program sponsors who could make quick use of the funding and prevent the loss of these funds to housing assistance. HUD failed to make use of the tools available to solve this problem administratively. Finally, in its FY ’03 Appropriations Bill, the Congress approved a series of statutory measures that were designed to minimize or eliminate the recapture of HCV appropriations. The conference committee report strongly encouraged program sponsors to continue working diligently to use every HCV authorized by Congress. Both Rep. Walsh and Sen. Bond have expressed their desire to wait and see if the appropriations bill’s solutions to the recapture problem succeed before considering new alternatives. HUD’s HANF proposal purports to solve a policy problem that:

1. HAs were already in the process of solving themselves,
2. HUD had tools to solve that the Department refused to use, and
3. Congress had solved (at least in part) through provision in FY ’03 appropriations.

Deregulation: just do it

Third, HUD claims that the HCV program is, “overly prescriptive and difficult to administer, with hundreds of pages of regulations and guidance,” that it is too complex, slow to respond to local market forces, and that the, “multiplicity of Federal directives,” have prevented several hundred thousand families from being served. PHADA certainly agrees with HUD on these points. The problem is that block granting the HCV program to the states is neither necessary nor sufficient for solving these difficulties. The solution to this concern is much more obvious. HUD must deregulate its program, regardless of the managing administrative entity. The problem is that HUD has demonstrated an historical distaste for relinquishing the micro-managerial control exercised through this overly prescriptive, difficult to administer, multiplicity of federal directives. If HUD wishes to deregulate in the interest of HCV program effectiveness, the Department should just do it without making radical changes to a successful service delivery infrastructure.

Administrative sources

Efficiencies and inefficiencies

HUD has argued in its FY ’04 budget justifications as well as in its legislative HANF proposal that the current HCV delivery system is inefficient. In particular the Department cites two problems. First, HUD must contract with 2,600 entities as HCV program administrators, the implication being that this is too much for the Department to handle. The inefficiencies of concern to HUD here are internal to the Department and do not involve the delivery network. In addition, HUD manages a public housing program that includes at least two sources of annual funding (the Operating Fund and the Capital Fund) with 3,400 administrators, manages project-based voucher assistance through 13,000 administrators, and manages community development programs (e.g. CDBG, HOME) through states and localities that number on the order of HCV and public housing program administrators. HUD has not yet made it clear why the number of program administrators is problematic for the HCV program and not for all of the other programs for which the Department is responsible.

HUD's second claim of inefficiency involves the size of local HCV programs. More than half of the 2,600 administrators operate programs with fewer than 250 vouchers. The inefficiency implied here is that these administrators are too small to take advantage of economies of scale and so these programs are more expensive than they need to. PHADA believes HUD is wrong on three counts. First, although it is probably true that small programs cannot take advantage of economies of scale available to programs in large urban centers, it is also true that these programs aren't victims of diseconomies of scale represented by inefficiencies of administering systems that must accommodate large numbers of clients, landlords and other service delivery organizations. Second, small programs generally operate in low cost areas. Housing costs are low, salaries are low, space and equipment costs are low, and these areas generally have lower Fair Market Rents (FMRs), lower payment standards, and lower administrative fees. HUD has failed to take into account these economies of the small. Third, and most important, these smaller programs represent a significant local commitment to serving housing needs of poor households. Small localities have a demonstrated stake in their local HCV programs, but the programs could be at risk of being frozen out through state level block grants and the encouragement of regionalization. Federal allocations of HCV resources to smaller programs has helped protect the equitable distribution of tenant based housing assistance, and block granting the program to the states places the distribution at some risk.

Although HUD fails to address the question of administrator performance, in its 2002 report on SEMAP outcomes, HUD reported that only 8 percent of HCV administrators were SEMAP troubled. Although 38 percent of troubled agencies were very small, these agencies were troubled for easily remedied problems, not requiring significant investment of HUD's resources, and they consumed less than 7 percent of HUD's HCV funding resources. On the other hand, although very large agencies represented a small proportion of SEMAP-troubled agencies, very large agencies consumed over 71 percent of HUD's HCV resources, and HUD anticipated that correcting deficiencies would consume significant HUD resources and take approximately 2 years. HANF seems to amputate a body of generally effective well run agencies in the name of speculative efficiency gains, and without any protection against the kinds of administrative problems already identified and largely corrected through SEMAP.

Finally, HUD has identified the number of program sponsors as a source of program inefficiency, but has not structured its HANF proposal for efficiency improvement. Instead, the proposal seems to encourage regionalization and use of metropolitan service organizations that will receive the same per voucher administrative support as the HCV program provides today. In efficiency's name HUD will move a voucher from a small, local, presumptively inefficient administrator and award the voucher to a larger, regional presumptively efficient administrator. HUD will pay an administrative fee capped at 10 percent of budget authority to the small administrator, and HUD will pay the same administrative fee capped at 10 percent of budget authority to the regional administrator. PHADA cannot identify how this change will produce more outputs (vouchers leased) to inputs (administrative dollars), the definition of efficiency.

Foundations in the sand

HUD has built its HANF proposal on a foundation of ideology, policy and administrative efficiency, but has failed to make its case in any of these three areas. PHADA disputes the claims of administrative efficiencies in block granting, and sees little or no connection between the policy issues HUD has raised and block granting. Devolving program responsibilities to lower levels of government is laudable, but HUD has chosen the wrong level, and its approach will be chaotically disruptive to a successful program on which almost 4.5 million people depend.

Attractive features of HANF

HUD's proposal includes several suggestions for deregulation of the HCV program and devolution of responsibility for policy positions from the national level to lower levels of government. These features include:

- Reducing client recertification and inspection requirements,
- Devolving responsibility for setting payment standards, eligibility and subsidy amounts, and
- Simplifying the process for establishing participants' maximum housing costs.

PHADA believes many of these suggestions would be helpful to any institution administering the HCV program. They represent significant opportunities to devolve program responsibility and to tailor the HCV program to local needs and policy preferences. But these reforms could be implemented within the current delivery network without the chaos inherent in switching to state block granting, and many of them could be more effective if implemented at the local rather than the state level. In testimony on HANF, HUD has simply expressed an unsupported preference to use states as administering entities.

Chaos ahead

Contrary outcomes

Because of substantial institutional and policy differences between the HCV and AFDC programs PHADA is much less sanguine than HUD concerning a transition from the existing service delivery network to a state block grant approach. Not only are HUD's arguments in support of HANF without substantial merit, but PHADA believes that transitioning to HANF will produce some results exactly opposite to HUD's expectations.

Reduce 2,600 administrators to approximately 60

A centerpiece of HUD's HANF argument involves the administrative efficiencies in substantially reducing the number of program administrators. But, the proposal permits states to opt out of participation as administrators. If a state opts out of administering HANF, it is very unclear what other organizations have the authority or the interest to administer a statewide program. It is possible that HUD would have to retain contracts with all existing administrators in the affected state. PHADA doubts that an entity other than a state government could operate successfully as a state-wide administrator. For the first year of HANF, HUD would have contracts with 2,660 administrators. During the subsequent two to four transition years, that number will dwindle down to an unpredictable level between 60 and 2,660.

Locally responsive decision making

HUD argues that HANF will enable more locally responsive decision making by devolving its responsibilities to state governments. The current delivery network relies on <u>local</u> institutions for program administration. PHADA has difficulty understanding how the addition of another layer of decision making authority at the state level will make the program respond more quickly or effectively to local issues. Adding a layer of administrative responsibility seems to promise more complex, not simpler, decision making processes that will take more time, not less. HANF also permits the states to use other than public entities to operate local programs, and if a state opts out of administering a grant, permits HUD to do the same. How local non-public administrators could be more responsive to local needs and concerns than local HAs, governed by politically appointed boards, remains one of many HANF mysteries.

HANF administrative costs

The HANF proposal imposes a superficially reasonable limit on administrative fees chargeable to the program of 10 percent of the annual block grant. But PHADA has estimated that, if each state charges administrative costs at this ceiling, the aggregate national costs for administering HANF will rise by over $73 million. Although 34 states will lose $43 million in capacity to charge administrative fee compared to the aggregate fees currently received by program sponsors within those states, 19 states will experience an aggregate $118 million increase in that capacity. One private sector analyst has estimated the requirement to accommodate the additional layer of state administration at 4 percent of the block grants. Unfortunately, these increased administrative costs will be supported from each state's block grant amount. These increasing administrative costs will require the elimination of over 11,000 vouchers currently in use.

In testimony on the HANF proposal, Assistant Secretary Michael Liu has said that current federal costs (internal to HUD) for administering the HCV program are approximately $15 million. In order to replace federal management of the HCV program, HUD's proposal would raise chargeable administrative costs for the program by $73 million, and cost an additional $100 million for states' first year "ramping up." HUD has also testified that HANF will not result in any personnel savings to the Department, so it appears that the administration of HANF will cost an additional $173 million in FY '04 and an additional $73 million each year thereafter. To some extent, these growing administrative costs make sense since every program administrator will manage a two-track program, one track for grandfathered participants operating under the old HCV program rules and procedures through 2009, and another of track for recently admitted participants operating under the new HANF program rules and procedures established by each state.

Unexpected outcomes

The undisclosed funding formula

Both the House and the Senate statutory proposals include language concerning contingencies if future funding is inadequate. Neither proposal contains language concerning the distribution of additional resources should Congress choose to expand HANF funding. PHADA has concluded that this proposal demonstrates diminished federal commitment to support the HCV program at its current levels. The Senate version even includes a specific provision, entitled, "Inadequate funding." The opinion is bolstered by HUD's FY '04 funding request for HANF which PHADA has argued is $730 million less than necessary to fund vouchers authorized by Congress. At an average cost of $6,500 per voucher, HANF leaves over 112,000 authorized vouchers unfunded in its first year of implementation.

All of this will leave state governments holding the bag when HANF faces inadequate appropriations. Program administrators will face difficult choices among reducing subsidy amounts, reducing utilization rates, reducing maximum subsidies, increasing tenant payments, targeting participation by higher-income voucher holders, and contributing state tax revenue to the HANF program. All of these alternatives lead to reductions in the number of vouchers in use, the reduction of housing costs subsidized by vouchers, or both. Governors are already facing very difficult choices in the Medicaid program because of inadequate federal funding and highly restrictive reimbursement policies. Two certainties in the HANF proposal are that costs will increase and that block grant appropriations will not keep pace.

The transition from one program to approximately 60

With the flexibility granted to states in HANF and absent any significant underlying national program structure, HANF will likely develop into many very different programs. That has happened for Low-Income-Housing Tax Credits. The development of different programs among the states complicates HANF, however, because of the ongoing requirements for portability. Portable vouchers must be administered under program standards of the state to which HCV holders move. If the receiving state fails to absorb incoming portables, the administering state must manage vouchers that operate under widely varying program standards, hardly efficient, and an invitation to error.

The combination of different programs with portability also presents the possibility of states becoming involved in a "race to the bottom." PHADA assumes that HCV holders in states that impose highly restrictive program requirements could choose to move to states with more generous, less restrictive requirements. Restrictive states will effectively free ride on more generous states' programs, a disincentive for any but the most restrictive program standards.

The transition from HCV to HANF

One of the most troubling areas of concern with HANF is not mentioned in the proposal. If Congress enacts HANF, HUD, the states, HAs and other program administrators will face the daunting task of transferring the existing deep and broad delivery system and reporting networks from one set of players to another. The proposal does not address any elements of this transfer, but the transfer must include:

1. Recreation of the administrative infrastructure necessary for program administration.

HAs have invested vast amounts of time, energy and money in creating and maintaining a delivery network and system that:

a. Maintains 2,600 waiting lists that include millions of applicants (many HAs cease taking applications when applicants equal or exceed their authorized vouchers),
b. Manages the annual recertification of 2 million households each year,
c. Manages approximately 200,000 new lease ups and 1.8 million lease renewals, including rent comparability and utility cost analyses, each year,
d. Conducts over 2 million inspections of new housing and renewed housing at least once each year,
e. Delivers on the order of 10 million housing assistance payments checks to landlords each year,
f. Delivers an annual 1099 to every appropriate person (landlords and participants) in compliance with IRS requirements and
g. Electronically submits the lengthy 50058 data to HUD electronically at virtually every program action on every HCV holder,

among other things. The systems in place to administer the HCV program have developed incrementally over three decades, and they are hardly optimal. But they are successfully delivering housing assistance and maintaining program quality and integrity.

Information systems designers have developed several alternative information systems to accommodate the single existing HCV program. Although none are without fault, with the advent of 60 different state HANF programs their utility appears doubtful. Thus the proposal may require redesign of data systems to support HANF, and those redesigns will lack the efficiency of scale currently available to system designers with the HCV program (a single program design and a potential customer base for vendors of approximately 2,600 program mangers).

Along with the advent of 60 HANF programs, HUD may need to revise its main tenant data gathering tool, Form HUD-50058. This form gathers detailed information on every housing subsidy recipient, and is currently 15 pages long, with an additional 15 pages of instructions. HUD will face the daunting task of designing a data collection instrument capable of capturing the information required in its legislative proposal from 60 different state HANF programs. When HUD last amended Form HUD-50058, the effort took 2 years, and the Department continues to correct deficiencies in the form and data collection systems to this day.

Significant changes in program administrators will require more than a simple handoff and will put much of the program at risk for some period of time.

2. Landlords, tenants, and HANF success.

As a market-based demand side model of housing assistance, the HCV program requires an adequate population of willing housing suppliers and consumers to work

a. Landlords

1. The current program attracts landlords because it assures them they will receive part of their monthly rental payment from a reliable and stable source. HANF will undercut this reliability and stability in two ways. First, new administrators and inevitable transitional snags will interfere with the stable flow of subsidy payments. Second, HANF's uncertain multi-year funding steam will erode landlord confidence in the program over time. Landlords will opt out of HANF and become increasingly reluctant to opt in.

2. Current program administrators have spent decades establishing stable professional working relationships with landlords that range from large multi-state management corporations to mom-and-pop sole proprietorships. Changing local administrators disrespects the value of this web of relationships. Adding additional complicating administrative layers will reduce landlords' confidence in the program's responsiveness to their concerns.

3. Section 8, HCV or HANF must retain a growing pool of landlords with a stable core as a precondition for success. Landlords tend to be conservative and suspicious of federal involvement. HUD's HANF proposal fails to consider the implications of these dramatic changes for a critical element of a successful housing assistance program.

b. Tenants

1. The population of HCV holders may appear captured by their economic status (the national average annual income of voucher holders is 18.6 percent of the national median income). However, the shallower the subsidy, the more realistic program exit becomes for participants. Although HANF includes some proposals that ease the compliance burden for participants (e.g. less frequent reexamination, less frequent inspections), program uncertainties and instabilities, coupled with the inexperience of some state and local program administers will discourage continued participation by higher-income, shallow subsidy, low-cost participants. The financial health of the HCV program will benefit from retention of these low cost HCV holders, but HANF seems

to discourage participation by all but the most impoverished, highest costs HCV holders.

2. In combination with the disincentive for continued participation by low-subsidy HCV holders, the proposal includes requirements for states to continue serving the same number of households between 2004 and 2009. This requirement may drive states to recruit higher-income eligible households, raise eligibility wherever possible, and structure program designs to minimize subsidy payments to new participants in particular.

c. The combination

1. By its nature the HCV program is driven by market forces. Program administrators serve to reduce transaction costs for seller-buyer dyad of landlord and tenant. For its success, HCV or HANF requires adequate numbers of willing landlords and willing tenants who are attractive to the other party to the deal. HANF can seriously degrade the desirability to HCV holders of the pool of landlords and housing, and can seriously degrade the desirability to landlords of the pool of HCV holders. This possibility seriously and fundamentally threatens the success of this demand-side driven housing assistance program.

2. It is unlikely that the impacts of market forces on HANF would be immediate. Instead, over time, these impacts will have the impact of reducing the desirability and incomes of HANF beneficiaries and reducing the number and desirability of housing and landlords available to HANF beneficiaries. Costs will rise faster, and quality will decline.

Program integrity

One justification HUD has used to support HANF involves the significant subsidy overpayments the Department has projected for the HCV program. HUD has identified over $1 billion in subsidy overpayments in the HCV program, the GAO has identified HUD as a high risk agency as a result of improper subsidy payments, and HUD’s subsidy overpayments have become a target of the President’s management agenda administered through the Office of Management and Budget. In the Department’s FY ’04 budget proposal, corrections to some of these overpayment problems are reflected in HUD’s estimations of appropriations needs.

Although HUD’s “simplification” of housing cost calculation in HANF (the proposal to limit housing costs to 30% of gross income at the initiation of assistance) purports to help resolve these problems, HANF’s fundamental solution to the overpayment problem is to redefine what to consider as “error.” states will establish payment standards, maximum subsidy amounts, maximum housing costs and any state-specific reductions from gross income. With this block grant proposal, HUD defines any problems of error or fraud as state, rather than federal, problems. Although the department may claim to have solved the $1 billion subsidy overpayment problem through HANF, HUD will not be paying out $1 billion less in block grants to the states, nor will anyone be reassured that $1 billion will be more appropriately channeled into proper payments for eligible households. PHADA believes it may be impossible for HUD to determine or report on what sort of housing subsidy payments may be correct, in the future.

Participant mobility

The portability of existing HCV assistance has had significant impact and enormous potential to encourage socio-economic deconcentration and allow impoverished households to live in locales they believe promise better economic opportunities. HANF retains portability, but programs may differ radically, state to state. States will retain the option of absorbing portable HCV holders into their own programs or permitting an originating state to continue to manage those portable vouchers. Without absorption, each program administrator may need to manage differing rules and standards among up to 60 individual HANF programs, a daunting burden. Mobility and the multiplicity of HANF program design become particularly problematic in metropolitan urban centers on or close to state boundaries.

Portability may also stimulate a race to the bottom among states. More generous programs may draw participants from more conservative programs, representing an unacceptable burden not only to a state's HANF program but also to its other social services support infrastructure. The choices available to states to remedy this kind of problem are limited, and generally require programs either to look more and more like the most conservative programs, or to put up with this free riding.

Finally, portability has helped to discourage the kind of waiting list shopping among applicants that was very common before implementation of voucher portability. The potentially significant differences among state HANF implementations seem to reintroduce the techniques of waiting list shopping in order to find the easier lists in more generous programs. Portability may be driven by the character of state HANF implementations, rather than by socio-economic diversity or economic opportunity.

Capital asset development

HCVs and project-based vouchers have become a vital tool for developing a wide range of housing affordable to low- and moderate-income households. Some housing is targeted and marketed to HCV holders, and some housing depends for capitalization on the use of project based voucher assistance. HCVs have been used as replacement alternatives in HOPE VI projects, as protections when owners opt out of existing project based agreements, and as one method for Low Income Housing Tax Credit developments to remain affordable to lower-income households under the terms of tax credit issuance.

All of these uses depend on the stability of the revenue stream represented by HCV assistance, and the stability of the period of time over which that revenue stream will continue. The stability of both the revenue and the commitment period are called into question as a result of HANF. LIHTC and HOPE VI development partners can presently rely on an HCV program that is both stable and consistent from state to state. When HANF lets 1,000 flowers bloom, developers will be unable to continue to rely on these program stabilities.

The outcomes from HANF for capital investment in affordable housing are straightforward. First, since the revenue stream from vouchers appears riskier, the risk premium associated with vouchers will rise, debt service in connection with affordable housing development will rise, and so the housing will either require higher rents from tenants or will require deeper subsidies of housing costs. Second, and as a result of the first outcome, HCVs or project based vouchers will become a less effective tool for developing housing affordable to low- and moderating income households. Third, the uncertainties inherent in HANF will effectively transfer risk to the states that has not been faced by the federal government. The risk transfer may affect the states' willingness to participate in these developments adversely.

Feather Weight Devolution

HUD's rhetoric surrounding its HANF proposal sounds as though the Department wishes to devolve authority and responsibility for HCV assistance to state governments. However, that devolution only goes so far. HANF retains a series of requirements and restrictions that seriously limit the extent to which HANF represents real devolution reaching beyond superficial appearances.

Annual Plan and reporting requirements

HANF requires the states to include HANF administrative details in the Annual Plan that the states currently submit to HUD for other unrelated purposes. In addition, states will submit annual performance reports to HUD that detail, among other things,

1. Elderly households served,
2. Disabled households served,
3. Income information for each household (and, presumably, member)
    a. Amounts of income,
    b. Sources of income, and
    c. Changes in amounts and sources.
4. The value of housing assistance paid,
5. Administrative expenses, and
6. Neighborhood and poverty information concerning where assisted households reside.

The relationship between these performance reporting requirements and HUD's current 50058 system is unclear. These may replace HUD's 50058 system or they may be in addition to it. In any case, HUD's planning and reporting requirements do not represent a devolved system of accountability, but retain the character of HUD's current system of collecting enormous volumes of detailed information concerning every member of an assisted household at the national level.

Targeting

Despite claims to increase program responsiveness to local and state policy preferences, HUD has proposed to continue targeting this housing assistance at the federal level. Currently, the HCV program precludes admission of most families with incomes above 50 percent of the area median. HUD defines HANF eligibility, with some exceptions, at 80 percent of median income, and continues to target 75 percent of program admissions for extremely-low-income (ELI) households (those with incomes below 30 percent of median income). In order to meet other program requirements with limited funding, administrators may encourage participation by the highest-income eligible families that may be housed within the untargeted 25 percent of new program admissions. PHADA believes that raising income eligibility while retaining ELI targeting will tend to limit access to HANF for households with incomes between 30% and 50% of the median.

Grandfathering

The kind of radical restructuring advocated by HUD brings with it the difficult question of handling existing commitments. There are 2 million HCV holders with both contractual and moral commitments concerning their assistance, and there is housing that has used project-based HCVs in support of maintaining affordability. These latter commitments are contractual and may last for a number of years into the future.

HANF addresses the question of the current HCV holders by requiring states to treat these participants under current HCV rules through 2009. Thus for the first five years of HANF, each state will operate a two-track program that includes participants operating under the old HCV rules and an increasing proportion of participants operating under the states' HANF rules. HUD has historically favored this kind of multi-layered transition when it has proposed significant changes in the design of its programs, and unfortunately HUD has uniformly ignored complaints from program administrators concerning the complexities of this approach.

The complexities of managing current program participants pales in comparison with the issues that arise in connection with current project based vouchers and vouchers used in conjunction with homeownership initiatives. HUD's proposal holds existing project-based and homeownership vouchers harmless in the transition to HANF. Thus, states will be obligated to assume the administration of these arrangements for the remainder of their lifetimes, which may be up to 15 years. HUD's proposal remains murky as to details in continuing administration of these vouchers. Administration may remain with current administering entities, or it may transfer to whomever a state may select to manage the new HANF program. In either case, the state's administrative role is complex, taking on responsibility for administering agreements in which the state had no negotiating role.

The wrong answer to the wrong question

HUD's HANF proposal answers a question on no one's lips, and answers it poorly. The proposal would restructure a program that is an acknowledged success, and it endeavors to solve problems that HUD acknowledges no longer exist. PHADA believes the proposal originated as an ideologically attractive change based on superficial, uninformed resemblances between the

Housing Choice Voucher Program and other federal income support programs, such as TANF. In pursuing HUD's solution to a non-problem, HANF:

- Places a highly successful service delivery network and the policy outcomes produced by that network at serious risk, and

- Risks alienating the market participants who must be willing buyers and sellers. HCVs success depends on those buyers and sellers in order to serve as a viable means for delivering housing assistance, maintaining housing quality, and developing new affordable housing

PHADA suspects that the administration is setting the stage for reducing HUD's funding per voucher in order to limit the continuing growth of the program's costs. This alternative is designed to offer political cover for federal policy makers when they decide to constrain federal budget commitments for tenant-based vouchers. It will leave governors holding the bag when states can no longer continue assisting the 2 million households and 4.5 million people currently using HCVs to help pay their housing costs.

One consequence of HANF, whether intended or unintended, is its broad withdrawal from a federal role in housing policy development and implementation. The proposal enshrines in statute a withdrawal from Congress's historical commitment to fund all of the vouchers it authorized. This withdrawal was enacted in FY '03 appropriations, but with HANF's requirement that states continue to serve the number of HCV holders, the proposal includes this withdrawal in authorizing legislation. HUD proposes to withdraw from the consideration of questions of housing quality, housing affordability, preservation and development, and any assessment of the magnitude of need for housing assistance. The proposal certainly withdraws from the long-standing federal commitment to, "a decent home and a suitable living environment for every American family." In place of these federal roles and commitments, HANF hopes to draw the states into taking on these responsibilities without a federal commitment to financial support comparable to the Congress's historical commitments reinforced in the FY 2003 Appropriations Bill Conference Committee Report.

PHADA would be comforted if, instead of investing its political capital in HANF, HUD would spend its energies with the Congress and local program administrators on solving the real limitations of the Housing Choice Voucher Program. These include streamlining administrative processes so that the program can respond quickly to changing local market forces, deregulating to permit creative locally tailored uses of Housing Choice Vouchers, and developing data and reporting systems that can predict future funding needs accurately.

Instead, the Department has produced a solution in search of a problem. PHADA hopes that the Subcommittee on Housing and Community Opportunity makes short work of HANF so that we may all proceed to develop options that build on the successes and overcome the shortcomings of the Housing Choice Voucher Program.