Testimony of
Sandra Henriquez, Executive Director of the Boston Housing Authority,
on behalf of the Council of Large Public Housing Authorities,
before the House Financial Services Subcommittee on
Housing and Community Opportunity

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Good Afternoon, Chairman Ney, Ranking Member Waters and Members of the Subcommittee,

My name is Sandra Henriquez, Executive Director of the Boston Housing Authority. Today, I am representing the Council of Large Public Housing Authorities (CLPHA), whose members manage over 30 percent of the nation's Section 8 tenant-based assistance, primarily in large, urban areas. Thank you for allowing me to testify before you on the Section 8 Rental Assistance Program and the Administration's proposal to block grant Section 8 rental vouchers to the states.

The Section 8 Rental Assistance Program is an important resource for families with incomes below 30 percent of the area median income. Further, it has been estimated that less than a quarter of people eligible for vouchers and other forms of low-income housing assistance actually receive some form of aid. The remainder live in substandard housing, double up with friends or family, are homeless, or are paying more than 50 percent of their income for housing. Section 8 rental vouchers helps solve this problem for nearly 2 million households. We fear that block grants the vouchers to states, however, will undermine this success.

While the stated purpose of the Section 8 block grant proposal is to reduce the amount of funds that are unspent every year and to increase administrative efficiency and flexibility, we believe the block grant proposal is likely to hurt the program and would create a whole host of new problems. CLPHA opposes the block grant proposal for several reasons. First, the Section 8 program, as currently administered, is highly successful, thus not in need of significant reform. The issue of unspent funds can be solved by continuing to provide local public housing authorities (PHAs) with the regulatory flexibility they need to maintain high rates of voucher utilization. An attempt to address unspent funds was made in the fiscal year 2003 appropriation legislation, and more time should be given to evaluate the effectiveness of that system. Second, for reasons outlined below, block grants would result in decreased funding over time and a reduction in the number of needy households served by the program. Third, state block grants would undermine local decision-making and accountability and needlessly add to the bureaucracy and costs to administer the program.

Block granting the Section 8 rental voucher program to the states would also make it more likely that fewer families would be served, and highly likely that fewer needy families will be served. As a result, needy elderly, disabled and families with children will have reduced access to housing assistance. In addition, cash-strapped states are likely to be unable to contribute additional resources necessary to continue housing current number of authorized families.

Section 8 Program is Successful

The Section 8 Rental Assistance Program is a great success by any measure. The Congressionally chartered Millennial Housing Commission in its May 2002 report described the program a "flexible, cost-effective, and successful in its mission." Utilization rates have increased 6 percent over the past year from 89 percent to now slightly over 95 percent. If the trend lines continue, the average national lease rate could reach 97 percent by July of this year. In Boston, we will be at or near 100 percent utilization at that time. According to HUD's April 2002 Report to Congress, 92 percent of administering PHAs were rated as standard- or high-performers under HUD's Section 8 Management Assessment Program (SEMAP). Boston Housing Authority (BHA) has been a high performer since 2000. Finally, in OMB's evaluation of Section 8 as part of the Administration's fiscal year 2003 budget proposal, the housing voucher program rated as a highly effective program, nationwide.

The single greatest predictor of utilization rates is the condition of the real estate market. Tight markets result in lower utilization rates, while loose markets result in higher utilization rates. Boston's vacancy rate was an astounding 1 percent in 1999 and the result where utilization rates in the low 80 percent. In 2001, when HUD gave 39 PHAs in areas with tight real estate markets the permission to increase their FMRs, utilization rates of the effected housing authorities, including BHA, started to climb. In Boston, even with the increased FMR, we were still \$100-\$200 below the market rate but the increased value of the vouchers, coupled with heavily recruiting landlords to forgo the extra money they could receive on the private market, produced higher utilization of the vouchers.

Another example is the recent softening of the real estate markets in Boston in the past year – which for several years had an extremely tight real estate market, and only 50% of families issued vouchers were successful in finding housing where they could use their voucher. Today, Boston's success rate increased to 80% percent due to changes in the market.

A block grant would result in fewer families being served and would encourage states to serve higher income families

1. *Under the block grant, the amount of money appropriated for the Section 8 program will decrease over time*

Federal assistance to the states is unlikely to keep pace with actual program costs. Current language proposed authorizes appropriation of "such sums as may be necessary" for the housing voucher program. There is no funding formula proposed, and it is not clear whether or not the funding formula will include an inflation factor or a housing cost factor that accurate reflects the increased costs of vouchers in the housing market. Further, an inflation factor or housing cost factor that inaccurately reflects the market will shrink the amount of the block grant over time, and make the allocation unable to serve the same number of people at the same income, over time.

Such a miscalculation is highly likely. HUD's calculation of fair market rents is famously inadequate at keeping up with actual rental costs. The divergence between increasing real estate prices and stagnating incomes of lower-income people has driven up the amount of subsidy needed to serve the same number of people, especially in the recent years. Fair Market Rents have increased 25 percent, while the general inflation rate, as measured by the consumer price index, has risen only 12 percent.

The threat of faulty funding calculations is dramatically evidenced by a recent paper published by the Center on Budget and Policy Priorities. That paper calculated that if the voucher program had been converted to state block grants five years ago, and if the Consumer Price Index were used to adjust the yearly increase in the block grants, states would have been forced to reduce the level of voucher assistance they provide by 13 percent, or 259,000 vouchers.

Another dramatic example can be found in my home state of Massachusetts, which has its own state-funded rental assistance program – a state-funded version of the Section 8 program. In recent years, under the pressure of a heated real estate market, legislators took various measures to cut the costs of the program. Recent changes include an increased contribution from the household and pressure on housing authorities to convert state-rental vouchers to Section 8 vouchers. Even so, the maximum rents the program was willing to pay did not keep up with the market. Landlords have dropped out of the state program in favor of the private market or Section 8, and the program now serves a fraction of the number of families it originally served.

2. Fewer needy families will be served

Under the block grant proposal, states could receive waivers for income targeting. The block grant proposal would require that only 55 percent of new admissions to the voucher program have incomes below 30 percent of area median income, a dramatic departure from the current statutory requirement that 75 percent of all new vouchers issued go to very low-income households. When funding drops relative to the number of families served, states can only serve the bill's required same number of families by serving families at the higher end of the income scale, since subsidies for these families cost less. Thus, under HANF states are very likely to be tempted to neglect extremely low-income households – those with incomes below 30 percent of AMI – in favor of households with incomes up to 80 percent of AMI.

Under the proposed Section 8 block grant, HUD would use a number of performance standards to evaluate the performance of a state, and to determine a state's funding allocation for the next year. Performance factors evaluated include the number of families served and the effectiveness of voucher assistance in helping families move toward homeownership and self-sufficiency. There is no evaluation factor for the incomes of the families served or for the poverty level of the neighborhoods where vouchers are used. A larger number of families can be served if the subsidy per family is reduced. Families ready for homeownership tend to have higher incomes. Finally, housing in the poorest neighborhoods is the most affordable. Thus, the changed income targeting requirements and the evaluation factors will each push states to serve higher income families and support the lowest quality housing in the poorest neighborhoods.

Another possible loss of funds from voucher program would be to non-housing activities. <u>Current legislative proposals would enable states to divert voucher funds to replace state spending on homeownership counseling and, depending upon how HUD defines supporting activities, a range of non-housing programs.</u>

3. Project-based vouchers and disincentives for private landlord and lender participation

As we understand the proposed legislation, the block grant will not apply to project-based Section 8, which is Section 8 that goes directly to landlords under long-term contracts. No such protection exists for project-based vouchers, which go to PHAs as vouchers and then are converted by PHAs to create hard units through contracts with private landlords.

Housing authorities have the authority to project-base up to 20 percent of their voucher allocation. Although funding has always been subject to appropriations, the consistency of the funding over the past 30 years has led owners and lenders to be confident enough to make long-term agreements based on the assumptions that the number of vouchers approved would be funded, and that the number of vouchers approved always equaled or exceeded the number of vouchers in use. The ability to project base vouchers is an extremely important tool, providing housing authorities with flexibility to provide low-income housing in neighborhoods where it traditionally is not available. We agree with critics of the block grant that the uncertainty of funding inherent in block grants will produce reduced participation in the program by private landlords and lenders for both tenant-based vouchers, project-based vouchers, and for homeownership vouchers. If the rules of the block grant program apply to vouchers that are project-based by housing authorities, the effect on project-based vouchers would be devastating. It is unlikely that any private landlord or lender would rely on long-term contracts ever again for vouchers if the block grant proposal is approved.

4. The cost of the program is reasonable in light of the need.

One of the criticisms of the Section 8 Housing Voucher Program is its increasing cost and its increasing share of the HUD budget. Before one accepts that concern, it is fist important to understand that the HUD budget, as a whole, has been cut by more than $1 billion, over the past two years. Thus, relative to the HUD budget, everything seems to have grown. Congress, however, has asked the Section 8 program to serve larger numbers of tenants in every year since its inception. At the same time, real estate prices have also increased every year since the program's inception. Given the increasing reliance on the Section 8 program coupled with the reduced resources provided other housing programs, the Section 8 program will naturally occupy greater proportion of the HUD budget.

Block Grants mean higher administrative costs and more bureaucracy

State block grants would also add an additional layer of bureaucracy to what is essentially a local program. The Section 8 rental voucher program is currently administered by local PHAs that are accessible and recognizable institutions in local communities. Over time, agencies have developed strong relationships with local property owners and managers who actually provide the housing funded by Section 8. It would be much more difficult for states to recruit and maintain landlords without this local connection. Moreover, vouchers are a crucial component of local affordable housing strategy. Not having direct access to this resource will only complicate and hinder local housing efforts. The greatest proportions of landlords who participate in the voucher program both nationally and in Boston are small business-owners – people who own less than 5 units. These landlords depend upon Section 8 payments to pay for their own housing, and also serve the goal of de-concentrating poverty.

The block grant proposal erroneously argues that the states will be more responsive to local markets than HUD. However, in the current system, local housing authorities administer the voucher program. The block grant proposal envisions giving control normally exercised by local housing agencies to state agencies. Thus, the power of decisions about local markets will move from the locality to far-away state capitals. All real estate is local, and states will be *much less* effective responding to changes in local real estate markets than local housing authorities. Better responsiveness could be achieved by streamlining federal regulations and providing flexibility to local housing authorities. Recently regulatory and statutory changes have done just that, and have produced the recent improvements in utilization.

1. Administrative fees

The 2003 Omnibus Appropriations bill included a provision that will cap the amount of administrative fees a public housing authority can accumulate in its administrative reserve fund. Housing authorities use these funds to provide resident services, construct new units, meet shortfalls in their operating budgets, and for other low-income housing purposes for which there is no other source of funds. Capping the amount of these funds will have the effect of lowering available funds for effectively managing and developing affordable housing.

Boston currently uses this earned administrative fee to fund a variety of low-income housing programs. Boston has used Section 8 administrative fees to fund a security deposit fund for homeless families and to pay for a lease-up counselors to assist homeless families in Boston find housing. Boston has also used Section 8 administrative fees as bridge loans for such programs has HOPE VI, to support operating costs of its public housing, since these funds have been severely cut in recent years, and other low income housing programs. The flexibility to use this earned fee for a variety of low-income housing programs is crucial to maintaining a cost effective housing strategy for low-income households that meets local needs.

H.R. 1841 also proposes to cap administrative fees at 10 percent of the total funding pool. This cost cap will hurt states with low Fair Market Rents, with large geographic areas, and many small programs. Other proposals suggested restricting fees to activities related to the provision of rental assistance under the Section 8 program. These proposals will only undermine housing authorities' ability to use money to effectively provide housing to low-income people, not lower the cost of the program.

It is highly likely that many state administrators will still contract with local housing authorities to administer most of the program locally. Administrative fees will be split between two layers of bureaucracy – the states and localities. This fee sharing, paired with reductions in administrative fees proposed by the statutory language, will make it even more difficult to administer the program effectively.

A dramatic example of the impact of the lost funding can be found in the President's fiscal year 2004 budget proposal, which includes an additional $100 million for start-up costs for the block grant program. These funds could be used, instead, to support 15,000 vouchers for families. This use of valuable housing resources for administrative costs is not necessary if the current system is maintained.

Operating a well-run Section 8 program can be labor intensive and costly. Recent changes in the system for calculating and using fees will make it increasingly difficult for PHAs to use their resources effectively. We hope to work with you in developing any future proposals to change the administrative fee provisions, so that we can ensure such changes will not jeopardize the effectiveness of these programs.

Conclusion

The Section 8 program is effectively serving many of our neediest citizens. A greater degree of flexibility in current program regulations would enable local housing authorities to respond more effectively to changes in local markets. A system of state block grants can only hamper local responsiveness and add an expensive additional layer of bureaucracy. The funding system contemplated by the block grant proposal creates incentives for Congress to under-fund the program, and for states to use the funds for less needy citizens, as well to divert funds for non-rental assistance purposes.

It is important to note that the block grant program is not really optional, as the administration keeps asserting. The only option available to states is whether or not a state entity administers the program. If a state decides that it does not want to administer the program, HUD will select an agency, most likely a high-performing housing authority within the state, to administer the program. Thus, all of the problems of a block grant will apply to every state, regardless of whether or not it elects to participate in the program.

Greater flexibility for local housing authorities, carefully crafted, would best maximize the use of Section 8 funds to serve local families. Further, this program only works with enough funding – enough funding to effectively administer the program and enough funding to meet market demands. The block grant proposal clearly contemplates less funding for the Section 8 rental assistance program, and we therefore urge you to reject this legislation.