

**Testimony of Michael Johnston,
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Cambridge Housing Authority, Cambridge, Massachusetts
On Behalf of
The Council of Large Public Housing Authorities
Before the House Committee on Financial Services
Subcommittee on Housing and Community Opportunity
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Thank you very much for the opportunity to be here today to share with you our views on the Section 8 program and its great potential to continue serving the needs of low income Americans.

My name is Michael Johnston and I am here today representing the Council of Large Public Housing Authorities, as director of the Cambridge Housing Authority Office of Leasing and Occupancy. I joined the Cambridge Housing Authority in 1991 and oversee the day to day operations of the Authority's leased housing programs, as well as the tenant selection process for the Authority's public housing units. As an administrator and practitioner, I know the Section 8 program in a very detailed, operational way. As an attorney and member of the Massachusetts Bar, I also am familiar with the regulatory and policy end of the program. Prior to joining the CHA, I was CEO of a private property management/real estate development company specializing in residential renovations/conversions and modular construction, so I am familiar with the private sector perspective, as well.

Background

The Cambridge Housing Authority ("CHA") administers almost 2,500 Section 8 vouchers in a city of 100,000, an additional 300 subsidies are administered from the Commonwealth of Massachusetts voucher program. CHA also owns and operates 2057 units of Federally-assisted public housing and 750 units of state-assisted public housing. The City of Cambridge has always been racially and economically diverse, and both public housing and Section 8 units are dispersed throughout the City. Cambridge has seen an unprecedented escalation in the real estate market since the end of the last vestiges of rent control over five years ago. The end of rent control coupled with a boom in our economy has left us with an incredibly low apartment vacancy rate of 2%.

We understand that there has been much discussion in Washington and elsewhere regarding utilization of the Section 8 program. HUD's primary response to concerns has been that low utilization rates are the result of poor housing authority management. This

response does not begin to adequately describe the real issues. While some agencies may have some management problems, I am here today to testify that high costs in local real estate market, low HUD Fair Market Rents, and a host of other complicated dynamics are really at play.

The Cambridge Housing Authority has been one of the highest performing housing authorities in the nation for many years, achieving a 100 out of a possible 100 on its last three management assessments. We have also received a score of 100 out of 100 on during recent testing for HUD's new Section 8 assessment system, SEMAP. CHA is one of a handful of public housing authorities that is permitted to use its Section 8 funding, along with its public housing money flexibility to provide tenant-based vouchers, but also produce subsidized units to increase the available supply under the Moving to Work Demonstration Program (MTW). Even with this added flexibility, which has been key to our success MTW allows the CHA and other participating authorities to suspend portions of the 1937 Housing Act, as amended, we still have not been able to achieve full utilization. As part of our efforts to assist residents in using their Section 8 voucher we perform the following services:

- Initial Rent Levels - Staff always conduct a rent reasonableness analysis; however, CHA utilizes flexibility to exceed 120% in very limited instances. Flexibility in use of higher rents is key to successful leasing in Cambridge.
- Rent Increases - As with initial rent determinations, rent increases are always based on a rent reasonableness determination. However, CHA aggressively works to maintain good landlords in the program. Using flexibility granted by HUD, CHA has adopted more flexible rent increase policies (including percentage increases greater than the AAF and flexible anniversary dates) to accomplish this objective.
- Tenant Payment - In order to avoid displacement of families and maintain units on the program, CHA has, reluctantly, allowed higher numbers of tenants to exceed 40% TTP. Using HUD-granted flexibility, CHA has allowed greater than 40% TTP at initial lease up on some occasions.
- Security Deposits and Damage Payments - CHA will under certain conditions pay owners up to one month's rent for damages beyond wear and tear and up to one month's rent should the tenant vacate without notice or owing rent. These approaches were previously allowed under the Section 8 regulations. CHA has found that it can be an important part of an overall landlord marketing strategy.
- Owner Intervention - CHA has hired a staff person to market the program to owners and to negotiate renewals and rent increases. Every owner who indicates that he/she intends to terminate participation in the program is contacted to: 1) determine the reason for termination, and 2) to identify ways to keep the unit in the program.

- Owner Survey - CHA conducted a survey of all current owner participants to assess satisfaction with the program and identify ways that program administration could be improved.
- Landlord Marketing - CHA has an ongoing marketing strategy to promote awareness of the program and its benefits. This includes an aggressive communications strategy targeting brokers, rental agents, institutional landlords and members of landlord associations. A newsletter is produced; presentations are made at meetings, etc.
- Housing Search - CHA has contracted with a local non-profit to provide housing search assistance to primarily disabled voucher holders. Combined with the landlord marketing efforts, this has helped improve the success rates of CHA participants.
- Participant Survey - CHA conducted surveys of both successful and unsuccessful program participants to try to better understand factors influencing a successful housing search. Results of the survey underscore: 1) our participants overwhelmingly want to stay in Cambridge; 2) the lack of affordable units in Cambridge is the number one problem for participants; 3) the most successful housing searches result from “word of mouth” referrals; 4) contacting owners based on newspaper advertising is the most frustrating and least productive mode of housing search.
- Project Based Program - The number one problem in Cambridge is the lack of affordable housing units, a problem that is increasing every year. While they have limited impact in expensive rental markets, project based vouchers can serve as a tool to increase supply. CHA is creatively using HUD granted flexibility to link project based vouchers to development projects under Moving to Work. MTW allows CHA to bypass the 25% rule, which is a critical factor impacting success.

Still, according to HUD, we are able to achieve a utilization rate of only 88%, below the 95% that HUD says is sufficient. Clearly, this illustrates that the problems are more complicated than just management.

Sometimes we forget that, although the Section 8 program is administered by housing authorities, it relies heavily on the voluntary participation of private landlords. The program is structured so that it only works to the extent that a local real estate market has a sufficient supply of housing meeting the needs of the voucher holders that rents for an amount not to exceed 40% and now, 50% of the Fair Market Rent for the area. It also assumes that private landlords who own such properties are willing to participate in a highly regulated program that serves very low-income residents. If those conditions do not exist in a local market, like Cambridge, housing low-income families becomes even more difficult. We expect that the supply of housing available to Section 8 voucher-holders to decrease even more this fall as HUD implements requirements to ensure that private owners participating in the Section 8 remove lead-paint from their units.

In many communities like Cambridge, where housing available for Section 8 voucher holders has all but evaporated, HUD and Congress's heavily reliance on the Section 8 program as its primary means of providing more affordable housing assistance to low income families seems misplaced. The program was never intended to be the primary means of Federal housing assistance, but rather another equally important tool that communities could use along with a fully funded public housing program, project-based Section 8, FHA insured programs, low income housing tax credits and others to provide housing opportunities for low income residents in a way that makes sense locally.

Despite what HUD says, I consider CHA's leased housing program to be a great success, particularly given market conditions in our area. To put this in perspective, it may be helpful to provide the Committee with some context. Currently, the two bedroom FMR in the Boston SMSA is \$979, including utilities ; CHA, has received HUD permission to go to 120% of FMR, or \$1,175. The actual average rent for a two bedroom apartment in the City of Cambridge is \$1,868, utilities excluded. This success rate also includes incremental new lease-ups over the last year of 108 units.

Current discussions in relation to the program's success include a number of proposals that the CHA considers potential threats to cost effective and efficient administration. Virtually all of the proposals that are being discussed by non-industry groups appear to overlay additional regulations or tinker with existing regulations. An overhaul of the program is in order to address the real impediments to utilization. The fundamental premise of any new proposals should include the following: 1) rent levels need to be directly pegged to actual local market conditions; 2) HUD regulations need to be reduced in number and complexity; 3) program administration and paperwork needs to be simplified and administrative funding sufficient; and, 4) localities should have the flexibility to create local leasing programs that provide quality, affordable housing without requiring adherence to a national protocol for every administrative action. These four points are fundamental to the program's success.

Increased Rent Levels

Over the past year, the CHA has invested considerable resources in landlord outreach and retention, and in surveying landlords and program participants to identify challenges to utilization in our community. The results of the survey were clear, both from landlords and from program participants: the overwhelming challenge to utilization was lack of an adequate Fair Market Rent ("FMR").

CHA views the current FMR determination system as the primary problem with the current Section 8 system. Alternatives to the current system should be considered including, but not limited to: 1) modifying the methodology to include more thorough and updated samples; and 2) increasing the funds available for local rent surveys.

The methodology is cleared flawed based on the experience of the Boston metropolitan region. Even at the 50th percentile, even at 120% of the 50th percentile, the rent structure is simply too low to attract new units to the program, and is too low to ensure the continued participation of current landlords. Newly published FMRs do not utilize updated Census data, basing rents on data that is far out of date.

A major stated goal of the Section 8 program is to reduce concentrations of poverty and encourage mobility. However, the FMR structure in a market such as Boston may ultimately create new pockets of poverty by forcing people to move away from Cambridge, Boston, Brookline, etc. and to those cities where rents are marginally more affordable. There is already anecdotal evidence that this is happening in smaller cities outside of Boston. Any regionalization of program administration would exacerbate that, if Massachusetts' experience can be generalized

Deregulation

The history of the Section 8 program has been one of progressively higher levels of regulation applied to public housing authorities. The program regulations are too stringent and too proscriptive. Public housing authorities need more flexibility to adjust program to meet local market conditions. The regulations essentially do not allow for the wide variances that occur among local housing markets. They also make the program incredibly confusing and difficult to navigate for program participants and landlords

Program Administration

More regulation means more regulatory compliance requirements for housing authorities to meet. The Section 8 program currently requires public housing authorities to follow various processes, fill-out reams of paperwork, and do endless reporting, none of which is geared to toward improving a voucher holder's ability to find housing. Fulfilling these requirements takes scarce resources away from housing. While more and more is expected in the way of housing counseling, lease enforcement, no more resources are available. Again, this situation makes it extremely difficult for even the best performing agencies to use the program effectively.

Local Control with Maximum Flexibility

In CHA's case, MTW has allowed us to locally determine program rules for our local leased housing program. The ability to respond to local needs and local market conditions in a way the CHA staff, program participants and Board of Commissioners feel appropriate has been fundamental to the preservation and expansion of the program's utilization in Cambridge. Again, I cannot stress enough the two most important elements of our success: local determination and administration of program rules, and the ability to bring maximum flexibility to our housing programs.

The Dangerous Myth of Regional Administration

CHA has seen some discussion of regionalization of Section 8 Administration. Proposals to create regional Section 8 administering agencies assume that such agencies will somehow do a better job of promoting mobility and increasing utilization. This is a hypothesis that is not based on data or sound research. The experience of Massachusetts in creating regional agencies to administer the state leasing program in the 1970s should serve as a cautionary warning.

It has been our experience, on the local level, that the regional agencies provide less access for program participants, who often call CHA after unsuccessful attempts to wend

their way through the bureaucracy of a large organization. Further, the regional administrators are less effective in targeting local market needs, and intimate knowledge of appropriate local rent levels. Regional administration would threaten local housing authorities' ability to do relocation for modernization, target underutilized neighborhoods. In my extensive work as an actual administrator of the program, the abstract and academic notion that there could be economies of scale to a larger program, or that it could potentially provide better direct service to families participating in the program is in direct conflict with my real life experience.

Again, if there are management problems at some agencies, we agree that HUD should make every effort to work with those housing authorities to improve the use of subsidy. However, HUD's data systems are still insufficient to accurately determine whether low utilization rates are due to mismanagement, market conditions, or other factors going on in the local community. There is no evidence of which we are aware that indicates changing the entity that manages the Section 8 program will improve any of the conditions that really cause low utilization. The alternative administration proposal seeks to fix a problem, without accurately determining the causes or even if there is a problem at all.

Conclusion

In sum, Section 8 is designed to be a locally driven program, therefore solutions to concerns about underutilization must be made locally. Instead of proposing more top-down Federal policies that may work in some communities and not others, Congress and HUD should consider proposals that diminish regulatory requirements and give housing authorities the flexibility to craft a program that makes sense in their community. Changing the administering entity to a regional or non-profit group will not address the underlying reasons why Section 8 is hard to utilize, but may, in fact, create new problems. Instead, efforts should be focused on providing the resources necessary to meet market demands, particularly the need to increase FMR.