

**TESTIMONY OF MATTHEW O. FRANKLIN
DIRECTOR, HOUSING AND COMMUNITY DEVELOPMENT
STATE OF CALIFORNIA**

Thank you Chairman Ney, Congresswomen Waters and other members of the Subcommittee for the opportunity to testify today on the Housing Choice Voucher Program and on the Housing Assistance for Needy Families Act of 2003 (H.R. 1841). My name is Matthew Franklin and I am Director of the California Department of Housing and Community Development. Prior to joining the Davis Administration, I also served on the federal level as General Deputy Assistant Secretary of Housing and Deputy Chief of Staff to the HUD Secretary during the Clinton-Gore Administration.

Under Governor Davis' leadership, the State of California is leading the nation in providing state funding and programs to meet its citizens' housing needs. During his first term in office, Governor Davis appropriated \$500 million in state funds to support affordable housing development, an amount three times greater than the funding level appropriated by any other prior California governor. And last year, Governor Davis and the State Legislature put a record \$2.1 billion housing bond on the statewide ballot – the largest housing bond in the nation and the largest in California history. The voters overwhelmingly approved the housing bond, Proposition 46, which will support the development of over 130,000 affordable housing units and create over 276,000 jobs for Californians over the life of the bond.

Housing bond funds are going to support a number of different programs administered by the Department of Housing and Community Development (HCD) including: \$910 million for new multifamily housing development, \$195 million for supportive housing, \$195 million for farmworker housing, \$190 million in downpayment assistance programs to support affordable homeownership, and \$195 million to support development of emergency shelter housing for the homeless. In addition to these loan and grant programs, HCD administers the federal HOME Investment Partnerships Program, the Community Development Block Grant Program, the Emergency Shelter Grant Program and the Housing Opportunities for People with AIDs Program.

California also has one of the premier state housing finance agencies in the country, CalHFA. Since Governor Davis took office in 1998, CalHFA has increased its multifamily lending activities by more than 350 percent. Last year, CalHFA funded \$163 million in lending to create over 2,200 affordable multifamily units and funded over \$1 billion for affordable homeownership.

Finally, the state operates the most productive tax credit and tax exempt bond program in the country. California has coupled the Federal Low-Income Housing Tax Credit Program with a corresponding \$70 million annual state tax credit program, again the largest in the country. For 2002, California awarded \$64 million in federal tax credits, which will produce 5,500 units of affordable housing. Our tax exempt bond program awarded \$1.3 billion to multifamily housing and created 13,900 affordable units.

FEDERAL HOUSING CHOICE VOUCHERS IN CALIFORNIA

In California, the Federal Housing Choice Voucher Program is a key component of our efforts to meet the housing needs of low-income families. The Housing Choice Voucher Program provides the important advantage of mobility, a critical attribute in the dynamic housing markets of California. By permitting recipients to choose where they live, the program empowers families to live in communities that best meet their needs.

Last year, the state received approximately 258,000 vouchers which were administered by a network of 104 public housing agencies (PHAs). The state HCD also administers vouchers in 12 rural counties. Voucher assistance generally serves extremely-low-income Californians, (those earning less than 30 percent of area median income) the neediest families in our State. Here are a few key facts about California voucher recipients:

- The average California household receiving vouchers has an income of less than \$14,000.
- Fifty-five percent of voucher holders in the State are families with children.
- Forty-five percent of all families receiving vouchers are households headed by a single mother.
- Households headed by elderly or disabled persons represent 47 percent of all those served.

As you can see, in California, this program truly is serving our most vulnerable population – many of whom would be homeless without the assistance the federal voucher program provides.

HCV UTILIZATION RATES IN CALIFORNIA

Despite a very difficult housing market, characterized by rapidly rising rents and very low vacancy rates, California PHAs and the state HCD generally have been successful in ensuring a high utilization rate of federal Housing Choice Vouchers. Statewide the current utilization rate is 96 percent, exceeding the HUD requirement of 95 percent utilization. The state administered rural component has achieved an overall 95 percent utilization rate for the voucher program.

However, despite this general success, the State does face many challenges in maintaining a high voucher utilization rate. California is home to 18 of the 25 highest cost housing markets in the country. In many markets, rents have been rising at double digit rates for several years and vacancy rates are well below five percent. When combined with the low production of new housing units during the 1990s, these factors make it difficult for voucher holders in some markets to identify housing at the prescribed program rents.

The cities of Los Angeles and San Francisco are examples of high-cost areas with lower utilization rates: the utilization rate in Los Angeles is 83.5 percent, and San Francisco's is 89.8 percent. In part, this is due to tight rental markets and rapid increases in rent, which have been seen in many metropolitan areas. Even when voucher holders can find affordable rental housing, many landlords choose not to participate because they have non-voucher bearing tenants knocking down their doors.

THE NEED FOR HOUSING ASSISTANCE IN CALIFORNIA FAR OUTSTRIPS SUPPLY OF HOUSING CHOICE VOUCHERS

The single biggest problem with the HCV Program in California is woefully inadequate program funding. According to the 2000 Census, only 17 percent of extremely low income households are actually being assisted by the program. With such a large segment of the eligible households being unserved, the need for rental assistance in this State far outstrips the current supply of Housing Choice Vouchers.

HOUSING ASSISTANCE FOR NEEDY FAMILIES ACT OF 2003

The Davis Administration is very concerned that the Housing Assistance for Needy Families Act of 2003 (HANF) would eliminate the existing federal commitment to fully fund authorized vouchers and accommodate future renewal costs at the real rate of growth in rents. In my view, this is the single most problematic feature of the proposed legislation. As you know, under the current system, Congress is committed to renewing all existing vouchers with an annual adjustment in funding that generally accounts for annual increases in program costs and rents. This system ensures that the number of families served by the program does not decrease over time and it is designed to empower program participants by paying a fair market rent for housing.

HANF would substitute this system of safeguards for one that would simply block grant a set amount of funds to participating states, with no specific commitment for renewal funding or annual rent increases. In fact, the legislation is silent on the formula to be used for annual increases in the amount granted to participating states.

In the past, Congress has utilized the Consumer Price Index (CPI) or other like indexes of generalized annual cost increases to facilitate annual adjustments in funding for other similar state block grant programs. Assuming that the CPI would be used to adjust funding, the annual increases in the Federal Housing Choice Voucher Program would be a disaster for the people of California. According to the Center for Budget Policy and Priorities, over the last several years rents have increased at a rate equal to more than twice CPI. In California, where housing costs are among the highest in the nation, the gap between annual rent increases and CPI is likely to be even greater. HUD's own annual adjustment factors used for project based Section 8 indicate annual increases 3 to 4 times the CPI in the past year.

In the event HANF was authorized and future increases in HCV program funding were tied to CPI, the number of Californians served by the program would steadily decline over time. The only way to offset this erosion in program funding would be to target the program to higher income families or to require participating families to pay a larger share of their income for rent – actions the Davis Administration does not support.

The program funding mechanism prescribed by HANF also would appear to preclude the possibility of future incremental voucher funding – something that is desperately needed in California. As previously indicated, the Housing Choice Voucher Program currently serves only 17 percent of extremely low income households in the State. With such a large unmet need,

California's need for new incremental vouchers requires an increase in funding, not a cap on program expenses. As recently as the 2001 budget year, Congress approved funding for thousands of new, incremental vouchers. In fact, during the second term of the Clinton-Gore Administration, HUD won approval for more than 150,000 new incremental housing vouchers. HANF would appear to kill forever the momentum created at that time for sorely needed additional funding for the Housing Choice Voucher Program.

As the lead state official responsible for advising Governor Davis on housing policy, I cannot support federal legislation that I believe is doomed to fail the residents of California. By wiping out the Congressional commitment to fully fund voucher renewals and account for real program costs and rent, HANF would, in my view, seriously undermine the federal Housing Choice Voucher Program. It would eliminate one of the Program's most valuable features – its focus on serving extremely low-income families. And it would create unacceptable hardship on participating families by substantially increasing their rent burden.

There are many ways to improve the current Program without sacrificing assured funding, and without taking any extreme steps. I advocate the following recommendations for improvement, which were developed by Margery Turner, Director of the Urban Institutes, Metropolitan Housing and Communities Center.

- Mobility counseling and assistance programs, which can help voucher recipients understand the best areas in which to search for housing, identify housing opportunities, and learn how to negotiate effectively with landlords. This kind of assistance has been shown to significantly improve the success rates for voucher recipients.
- Aggressive landlord outreach, service and incentives programs, wherein PHAs continuously recruit new landlords to participate in the program. In these programs, PHAs listen to landlord concerns about how the program operates, address red tape and other disincentives to landlord participation, and, in some cases, offer financial incentives to landlords to accept voucher recipients.
- Regional collaboration and/or regional administration of the voucher program can potentially help address the administrative barriers to portability across jurisdictions, and make the program easier for both landlords and participants. Regional coordination can strengthen voucher program performance.

Thank you for the opportunity to brief the Subcommittee on the impact of HANF in California.