Testimony of
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and
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Mr. Chairman, Ranking Member and Members of the Committee, my name is Michael Kelly and I am the Executive Director of the District of Columbia Housing Authority (DCHA) here in our nation's capital, and President of the Council of Large Public Housing Authorities (CLPHA). Thank you for your invitation to testify today on the fiscal year 2009 budget request by the Department of Housing and Urban Development.

DCHA owns and manages 8,000 public housing apartments and town home residences in the District of Columbia, and we provide housing subsidies to over 10,000 families through the Housing Choice Voucher Program in the DC area. DCHA is the fourth largest recipient of HOPE VI funding in the country, having received over $160 million in federal funding from the U.S. Department of Housing and Urban Development (HUD). Each HOPE VI project grant award has been leveraged with additional public and private funding to bring the total infusion of financial resources for revitalizing six HOPE VI sites to over $800 million.

CLPHA's sixty members represent most major metropolitan areas in the country, and on any given day, CLPHA members serve more than one million households. Together, they manage almost half of the nation's multi-billion dollar public housing stock, and administer 30 percent of the Section 8 voucher program. In short, our members are in the vanguard of housing providers and community developers.

Currently, public housing is home to about 2.1 million persons. Half of those households consist of elderly or disabled residents. About 4.7 million people, including 2.2 million children, rely on the Housing Choice Voucher program, administered by public housing authorities, to provide safe, decent, and affordable housing options. Vouchers are also a key housing resource for elderly and disabled families, who hold 44 percent of vouchers in use.

Regrettably, this Administration's proposed 2009 budget is a continuation of a now eight year effort to cripple, dismantle, devalue and defund public housing as we know it. From cruel budget cuts to the evisceration and elimination of programs —such as Drug Elimination Grants and HOPE VI – this budget, in Congressman John Olver's words, is an "assault on public housing." Let me elaborate on that perspective through four major programs within HUD.

Operating Fund

The Administration's proposal of $4.3 billion for the Operating Fund is a paltry increase of $100 million over last year's appropriation. HUD and the public housing industry have calculated that the Administration's request would support the Operating Fund at only 81 percent of need. HUD's own budget justifications indicate that $5.3 billion is needed to fully fund the Operating Fund in FY2009. Furthermore, the operating fund has not been fully funded since 2002, and estimates show that during those years, public housing lost nearly $3 billion in operating subsidies alone, which led to fewer families being served, and many units falling into disrepair. At 81 percent funding, this is in essence saying that housing authorities should shut down 19% of their operations or units. 19% of all public housing is substantial, as it represents approximately 227,000 units. In reality, this low proration leads to reduced services to residents, and moreover, insufficient resources to properly maintain existing units, which is a major factor in causing units to become severely distressed.

To deal with the impact of this continued decrease in funding, three years ago, DCHA developed a reorganization of its personnel in order to provide services, both internal and external. We executed two voluntary severances i.e. "early outs". And while we have worked hard to avoid the layoffs that many of my colleagues across the country could not avoid, DCHA did eliminate a regional office which reduced staffing and realigned maintenance staffing. Elsewhere throughout the Authority, positions were eliminated. DCHA, once staffed with 1,100 personnel, now has 800.

Coupled with underfunding is HUD's problematic implementation of asset management. The transition to asset management has dramatically increased the administrative burden on housing authorities. To further complicate the problem, HUD has established restrictions on management fees which prevent housing authorities from charging reasonable fees for administration. We thank Congress for reaffirming in legislation that housing authorities may use a portion of their capital fund to pay for some central office costs. However, housing authorities are concerned that the continued shortfalls in annual public housing funding, such as the FY 2009 budget request, will make the transition needlessly difficult, if not impossible to achieve, resulting in negative consequences for resident services.

When viewed in this context, the Administration's request for only 81 percent of need is both inadequate and indefensible. Therefore, DCHA and CLPHA recommend funding the Operating Fund at the industry recommended level of $5.3 billion in FY 2009.

Capital Fund

In recent testimony before a House Appropriations Subcommittee, HUD Secretary Jackson claimed housing authorities have sufficient Capital Fund reserves. As a housing authority director, I am baffled by the Secretary's remarks, but I can say that we do not have Capital Fund reserves, and are in fact prohibited from maintaining reserves, and under this budget, we will not have sufficient Capital Funds.

At $2.024 billion, this budget request is approximately $415 million less than the amount appropriated by Congress in FY 2008. In justifying its budget, HUD claims that the Administration's request would "provide resources to support the estimated $2 billion annual capital accrual needs of the public housing inventory." In reality, the funding requested by the Administration is considerably lower than the annual accrual needs. The requested funding will *underfund* accrual needs by more than $700 million in fiscal year 2009, and completely ignores the backlog of modernization needs which could be in the tens of billions.

At DCHA, we have a backlog of modernization needs totaling $150 million. These needs relate to the physical rehabilitation of the units as well as the need to replace a variety of systems, such as heating, fire and security equipment. In light of decreased Capital Funds each year, DCHA sought assistance from the private sector and collateralized its future capital resources to receive $80 million in bond funding to repair and replace major systems at most of our developments. Despite this level of effort, DCHA has fourteen developments throughout the District that require major physical improvements. With reduced Capital Funding, DCHA's ability to return to the private sector to secure additional funding to treat these sites is significantly restricted.

Underfunding the Capital Fund will bring negative impacts on private sector investments. Housing authorities are now able to raise private capital by pledging their future Capital Funds toward the repayment of bonds and loans. To date, the $3 billion borrowed by housing authorities through the Capital Fund Financing Program (CFFP) has been used in creative ways to make large-scale comprehensive improvements to their developments. Underfunding the Capital Fund sows the seeds of uncertainty for private investors and causes private lenders to shy away from future investment in public housing neighborhoods. Bond rating agencies such as Standard and Poor's are now raising these concerns.

Housing authorities who borrow against their future years' Capital Fund allocations face the problem of being unable to address future years' annual capital needs. Since housing authorities are required to service the debt on these loans, they are less able to address the capital needs of other developments in their portfolio. Delaying necessary repairs and upgrades inevitably leads to more costly repairs in the future. This cycle of borrowing now and forgoing repairs later does not – and will not - solve the issue of an aging public housing portfolio.

In last year's budget submission, HUD said it would conduct a national modernization needs study and develop and test a modernization assessment protocol. A year has now passed. This year, once again, HUD says it will conduct a capital needs study of public housing. DCHA and CLPHA urge HUD to complete this study so that we can have an updated and more complete understanding of the state of capital needs in public housing including the current number of severely distressed units. We also request that HUD select knowledgeable parties, including industry representatives, to serve on an advisory committee.

DCHA and CLPHA recommend adequately funding the Capital Fund at the industry requested level of $3.5 billion in FY 2009. This will allow housing authorities to meet accrual needs, begin to address the modernization backlog, and support private sector investment in public housing neighborhoods.

HOPE VI

HOPE VI is one of the most significant neighborhood reinvestment strategies of the last decade. It has transformed communities of despair and unrelenting concentrations of poverty into mixed-income communities that will serve as long-term assets in their neighborhoods.

At DCHA, over the last several years, we have assumed the roles of real estate developer and community builder. With our six HOPE VI sites and several other revitalization efforts throughout the city, DCHA, along with our partners, have generated over $2 billion in economic development. In fact, DCHA was recently named the fourth most active developer in the District of Columbia by the Washington Economic Development Partnership. Also, two of our sites, Capper/Carrollsburg, which is near the new baseball stadium, and Henson Ridge were favorably recognized by *Affordable Housing Finance* magazine this winter.

Through HOPE VI, DCHA has been able to increase the number of affordable housing units available for low income families. When DCHA began this journey several years ago, many of our public housing units were distressed and unoccupied. HOPE VI, coupled with other resources, such as low-income housing tax credits or project-based units, has revitalized and improved neighborhoods. Through DCHA's combined redevelopment efforts we have increased the number of low-income families served in the portfolio by over 1,500.

One-for-one replacement housing has proven successful in the District of Columbia as a result of favorable local market conditions that have allowed us to accomplish significant leveraging of limited federal resources. However, many communities with less advantageous market conditions—such as the lack of available land—lack the funding necessary to provide one-for-one replacement housing. Without a significant federal contribution, housing authorities will be unable to leverage the necessary funding from state and local governments, or from private firms and tax credits to structure a redevelopment deal.

With the kind of success we have achieved here in the District of Columbia with HOPE VI—and throughout the country—one would expect the Administration's proposed budget to reflect the need for the transformative value this program holds. Unfortunately, once again, the Administration instead proposes to end the program.

In 1993, when the program was first authorized, the stated goal was to demolish severely distressed public housing, estimated at that time to be 100,000 units. Today, 15 years later, we are still faced with a substantial number of severely distressed public housing units. This is partly the result of the deliberate underfunding of the Capital Fund Program. In fact, it has been estimated that there may be as many as an additional 82,000 severely distressed units—another reason why a capital needs study is so critical.

We also support passage of S. 2523, The National Affordable Housing Trust Fund Act. This bill will make possible the largest expansion of affordable housing in decades, and will allow participating entities to produce, rehabilitate and preserve 1.5 million housing units over the next 10 years. We see this as an important funding source for one-for-one replacement housing plans.

Viewed in this context, the purpose of HOPE VI is far from over as there remains much work to be done. For these reasons, DCHA and CLPHA recommend permanent reauthorization of the program and funding HOPE VI at $800 million in FY2009.

Tenant-Based Housing Choice Voucher Program

The administration is proposing appropriations of $14.3 billion and an offset of $600 million for renewals in FY2009 under the Tenant-Based Housing Choice Voucher Program. However, the industry estimates that $15.4 billion is needed for tenant-based renewals and HUD's request would fail to support between 55,000 to upwards of 100,000 vouchers currently in use.

HUD proposes that PHAs be funded "based on the amount public housing agencies were eligible to receive in calendar year 2008 and by applying the 2009 annual adjustment factor". In their budget justification, HUD claims that such a budget based approach "results in predictable future year funding allocations." We believe funding for the housing choice voucher program should continue to be funded by using actual leasing and cost data as it has for the past two funding cycles. Budget based funding does not take into consideration significant changes in local housing markets or reward housing authorities for improved utilization rates.

HUD and OMB recognize that the voucher program is one of the government's most effective programs, yet this budget doesn't provide full funding to ensure continued program success. Past performance shows that the program has reduced homelessness, overcrowding and frequent moves, as well as enabled families to move to lower poverty neighborhoods with better schools and less exposure to crime.

Once again, DCHA administers over 10,000 vouchers here in D.C. for low-income families. In order to continue to aid these many needy families, we expect that each voucher in need of renewal will be renewed and in turn, we expect HUD's budget to meet that need. DCHA and CLPHA urge funding at the industry recommended level of $15.4 billion for renewal of Tenant-Based Housing Choice Vouchers in FY2009.

To summarize, it is past time for HUD and this Administration to stop their assault on public housing and low-income families through their budget decisions.

I thank you again for this opportunity to testify. I hope that the information I shared will help guide your future decisions which impact so many families here in the District and across the nation.