



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410

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on**

Section 8 Reform

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Chairman Johnson, Ranking Member Shelby, and Members of the Committee, thank you for inviting me here today to testify regarding opportunities to reform the Housing Choice Voucher and public housing programs.

As you know, the voucher and public housing programs provide critically important housing assistance in communities across the nation. These programs serve extremely poor families, many of whom are elderly or disabled, or both. While the median income of American families today is just above \$50,000, voucher and public housing families have substantially lower incomes.¹ Not surprisingly, with the recent recession, the demand for rental assistance has increased.

At the same time, we have been tightening our belts at the federal level, and HUD recognizes the urgent need to streamline and simplify its rental assistance programs in order to reduce the administrative burdens on PHAs and increase overall efficiency. In our FY12 and FY13 budget requests, we included measures that reduce administrative burdens and increase efficiency, as well as generate federal cost savings.

At the same time, and in light of the persistent need for deeply affordable rental housing, we are working hard to preserve public housing. For example, the Department's Rental Assistance Demonstration (RAD) is providing participating PHAs with new options for addressing the capital needs of properties, enabling them to leverage private investment on terms and conditions similar to those available to

¹ The average annual income of voucher program participants is approximately \$12,500; for public housing families, the figure is slightly more than \$13,500.

private property owners participating in HUD's multifamily programs. We expect that RAD will help to reverse the loss of public housing units and eventually place the inventory on a more sound, sensible regulatory footing for the long term. In the meantime, administrative streamlining is key to holding on to what we have. We also recognize that both preservation and administrative streamlining will be well served by continuing – and completing – HUD's transition to a project-based framework for public housing. HUD recognizes both the necessity and the wisdom of moving in the direction of an oversight model for public housing that is more closely aligned with the multifamily project-based Section 8 portfolio and with traditional asset and portfolio management principles.

Finally, the Department believes that PHAs should enjoy greater flexibility to respond to local housing needs, which in some cases means testing innovative strategies and engaging in partnerships tailored to local circumstances. The Department recognizes that greater flexibility must be coupled with measures to protect tenants, assure adequate HUD oversight, and evaluate results.

Streamline and Simplify

The Department is aware that there is broad external consensus among policy experts and practitioners for a number of key reforms that will streamline and simplify HUD's rental assistance programs. In its FY13 budget request, HUD put forward a number of reforms around which there is such a consensus. These reforms include:

1. *Revising the threshold for medical deductions.* The current threshold for the deduction of medical and related care expenses is 3 percent of family income. HUD proposes to increase the threshold to 10 percent of family income. This change would generate estimated savings of \$150 million in the first year of enactment (\$30 million in the voucher program, \$23 million in public housing, and \$98 million in project-based Section 8).
2. *Consolidating the Family Self-Sufficiency program.* Currently, there is a Family Self-Sufficiency (FSS) program for the voucher program and another for the public housing program. The programs are separate and administered independently. HUD proposes to consolidate the two programs and expand eligibility to project-based Section 8 owners, opening the program to multifamily tenants.
3. *Modifying the definition of extremely low-income.* In areas where median incomes are extremely low (e.g., rural areas), working poor families may be skipped over for rental assistance, even if their incomes put them below the

poverty level. This is the case for the voucher program, especially, because 75 percent of new admissions each year must have incomes at or below 30 percent of the area median. HUD proposes to define an extremely low-income (ELI) family as a family whose income does not exceed the higher of the federal poverty level or 30 percent of the area median income. This provision will generate estimated savings of \$155 million (in the voucher program only) in the first year after enactment.

4. *Enacting a rent policy demonstration.* Currently, HUD can test and evaluate different rent-setting policies only at Moving to Work (MTW) agencies, since other agencies are not authorized to alter their rents beyond what is permitted in statute. HUD proposes to carry out a rent policy demonstration at any agency “for the purpose of determining the effectiveness of different rent policies in encouraging families to obtain employment, increase their incomes, and achieve economic self-sufficiency, while reducing administrative burdens and maintaining housing stability.”
5. *Establishing a flat rent floor.* PHAs are required to establish a flat rent “based on the rental value of the unit” and to offer public housing families the option of paying the flat rent or an income-based rent. In order to align public housing flat rents more closely with market rents, HUD proposes to establish a flat rent floor set at 80 percent of the applicable FMR. To assure that no family’s rent would increase by more than 35 percent in any one year, the increase would be phased in where applicable. Once fully implemented, this provision would reduce costs by approximately \$400 million.
6. *Changing the definition of a PHA to include a consortia of PHAs.* Currently, there is statutory authority for PHAs to form consortia for the purposes of administering the voucher program, but not for administering public housing. HUD proposes to amend the definition of a “public housing PHA” to include a “consortium of PHAs” so that PHAs will be able to reduce their administrative costs and achieve operating efficiencies by combining their operations, should they choose to do so.
7. *Authorizing biennial inspections for HCV units.* Currently, HCV units must be inspected on an annual basis, regardless of whether such units have a record of regular compliance with HUD’s physical condition standards. To reduce the administrative and financial burden on PHAs and high-performing landlords, HUD proposes to authorize biennial inspections, enabling PHAs to concentrate their inspection resources on the more marginal and higher-risk units. Importantly, residents would retain their right to request an inspection.

While each of the above-described provisions requires statutory authority, we have established a cross-program working group to identify streamlining and simplification measures that HUD can implement through regulation or notice and are moving aggressively to implement these measures. In addition, we are exploring further streamlining measures that require statutory authority and may be worth pursuing in FY14.

A Stronger Foundation for Public Housing

Our commitment to streamlining and simplification extends beyond the provisions identified above. As we look a bit further out on the horizon and consider the future of public housing, in particular, we recognize the importance of aligning our oversight structure with basic asset management principles.

Small PHAs, in particular, view our existing oversight structure — known as the “Public Housing Assessment System,” or PHAS — as increasingly unworkable. They assert that PHAS is heavy-handed, that small PHAs pose little risk to HUD, and that HUD should therefore scale back its oversight of small PHAs. I understand and appreciate these concerns. We have taken some steps to adjust how PHAs are scored under PHAS, and we are willing to consider others. We are interested, however, in pursuing broader reform in this area in the interest of protecting tenants and the taxpayer’s substantial investment in public housing. Reform that embraces traditional asset management principles and practices will also bring substantial administrative relief to PHAs of all sizes, helping to put the public housing portfolio on a more solid foundation.

Reform of HUD’s oversight structure is the next step along a path whose initial direction was established during the prior Administration, with the implementation of “asset management.” Asset management entailed movement from a system where accounting, budgeting, funding, and management were all performed at the agency level to a system where these functions are now performed at the project level.

Movement along this path picked up a strong head of steam with enactment of the Rental Assistance Demonstration (RAD), which is a top priority of the Department. RAD addresses the contractual relationship between PHAs and HUD. By offering PHAs the option to convert to a long-term, project-based Section 8 contract, RAD facilitates lending to and investment in individual public housing properties. Without a doubt, asset management laid the groundwork for RAD by beginning to build an operating history at the individual project level. This information is critically important to the lenders and investors who will be underwriting public housing preservation transactions under RAD.

Moving HUD's oversight of public housing to a true asset management model is the next step on the path toward putting the public housing portfolio on a stronger foundation and reversing the portfolio's isolation from the affordable housing mainstream. As we move ahead, we look forward to working with the Committee and our industry partners as we pursue this important change.

Moving to Work

The Moving to Work (MTW) program was authorized in 1996 as a demonstration program. The purpose of the program is to provide a limited number of PHAs² with the statutory and regulatory flexibility to test approaches to providing housing assistance that reduce costs and increase cost-effectiveness, reward work and employment, and increase housing choices for low-income families.

Since its enactment, MTW has enabled PHAs to pioneer innovative practices around approaches to serving homeless families, building resident earnings and assets, leveraging private capital through the project-basing of vouchers and other strategies, and achieving operating cost efficiencies through streamlined approaches to income recertifications, inspections, and the calculation of utility allowances. For example:

- Home Forward (Portland, Oregon) made an award of project-based vouchers to a local not-for-profit organization that provides housing to formerly homeless veterans. The building is served by a full-time resident services coordinator, and supportive services are provided by the Veteran's Health Administration. Home Forward also uses its single-fund flexibility to provide security deposits to veterans using Veterans Affairs Supportive Housing vouchers to lease rental units.
- The King County Housing Authority (KCHA) is able to leverage its MTW flexibilities to build programs involving local partners that bring their own sources of funding to the table. For example, KCHA developed a Resident Opportunity Plan (ROP) in partnership with the local YWCA; Bellevue College, Hopelink; and Washington State's Department of Employment Security. Through the ROP, participating residents receive wrap-around services and financial assistance so they can acquire the skills needed to increase their earned income and ultimately graduate from federally assisted housing. KCHA's flexibility under MTW provides it with the latitude to refine the program iteratively and incrementally, improving resident outcomes as the program progresses, while also supplementing the sources of funding brought by other partners, which are typically constrained to particular activities.

² There are currently 35 MTW agencies.

- The Cambridge Housing Authority implemented a tiered rent structure that combines elements of an income-based rent and a flat rent. Rents are established for various income bands and set at 30 percent of adjusted income at the low end of each band. This approach, which is combined with a hardship exemption, produces much-needed rent simplification for both the PHA and residents.

As you know, the Department supports the principles of MTW, including appropriate recordkeeping, reporting requirements, and rigorous evaluation. We look forward to working with the Committee as it considers potential reforms and improvements to the MTW program.

Conclusion

Mr. Chairman, there is an unquestioned need for rental assistance in communities across the nation. At the same time, there is longstanding consensus around a set of reforms that will streamline and simplify administration of the Housing Choice Voucher and public housing programs. HUD is committed to improving not only the administration of these programs, but its oversight of the public housing program, in particular. Finally, the Department recognizes that greater flexibility for PHAs must be coupled with measures to protect tenants, assure adequate HUD oversight, and evaluate results. Thank you for your consideration of these comments, and I look forward to addressing your questions.