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Testimony of

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before the

House Financial Services Committee

Subcommittee on Housing and Community Opportunity

“The Section 8 Voucher Reform Act”

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Chairperson Waters, Ranking Member Capito and Sub Committee members, I am Curt Hiebert, President of the Public Housing Authority Directors Association (PHADA) and Executive Director of the Keene Housing Authority located in Keene, New Hampshire. I am honored to testify before you today on PHADA's behalf.

Our association was founded in 1979 and represents over 1,900 housing Authority chief administrative officers. A significant proportion of PHADA members administer small or medium sized agencies that operate a mixture of assisted housing programs. Some operate public housing, some the Housing Choice Voucher program, many operate both programs, and a number of members operate assisted housing financed with HOME, CDBG, LIHTC, Department of Agriculture or other non-federal support.

We are grateful that you are investing the Committees' resources to address this assisted housing reform initiative. The draft bill language that PHADA has reviewed includes modest changes to the bill adopted by the House of Representatives during the 110th Congress. PHADA is looking forward to reviewing a draft that addresses all major components of that bill, and we hope to collaborate on further refinements, clarifications and improvements to a final version of SEVRA.

Many provisions contained in the draft bill are attractive to PHADA and its members. Some may reduce administrative requirements for program sponsors or program intrusiveness into participants' personal affairs (e.g. reducing the frequency of Housing Choice Voucher subsidized unit inspections, reducing the frequency of some household income recertifications, simplifying some elements of rent calculation). However, other provisions may have significant cost or revenue implications for HAs, and some may introduce new more complex administrative requirements (e.g. new asset eligibility standards may require new inquiries into real estate ownership and its availability to applicants and participants, new targeting provisions using local poverty lines may require sponsors to track a number of different eligibility and targeting incomes). Of particular concern to us are provisions that may diminish potential rent revenue in public housing when the Congress faces significant budget challenges. The public housing program lacks cost reducing mechanisms available in various Section 8 program components (e.g. temporarily removing units from the assisted inventory, lowering voucher utilization rates to accommodate funding reductions).

The bill permanently restores a Housing Choice Voucher (HCV) funding allocation protocol based on units in use and actual costs. The bill also establishes an administrative fee that is based on vouchers in use. Such funding mechanisms are critical to the program's stability, permit sponsors to build HCV utilization, and provide ways for program sponsors to accommodate local market variability while encouraging cost constraints and maintaining voucher utilization rates.

Although the bill proposes reforms for the assisted housing rent and income calculation protocols, the bill may not make a very complicated system much simpler. We would prefer an income and rent calculation protocol dramatically less complicated than the existing system that we believe could also be fairer to a large proportion of public housing residents and Housing Choice Voucher program participants.

Unlike the previously passed version of SEVRA, the proposed bill does not yet include provisions concerning the Housing Innovation Program (HIP) or other permanent authorization for the Moving to Work (MTW) demonstration program. We believe the committee should include HIP or another MTW authorization provision as it considers a revised SEVRA bill. We urge the committee to include provisions that:

- Make the MTW demonstration permanent,
- Moderately expand the MTW program,
- Assure a robust evaluation process focused on the effects of local flexibility on program participants and applicants,
- Offer reasonable protections for applicants, tenants and participants, and
- Continue existing MTW agencies' ongoing participation by right.

Utilizing the flexibility allowed under the current MTW contracts, existing MTW agencies have implemented local initiatives that are not currently available to general HCV program sponsors:

- Used vouchers to support homeless participants' transition to permanent housing.
- Implemented homeownership initiatives that enhanced Section 8 homeownership.
- Project based vouchers outside current statutory limits to leverage conventional financing and improve the assisted housing inventory.
- Encouraged landlord participation and increased housing choice.

While it is important to include an evaluation process in the MTW/HIP program, it is also important to recognize that the vast majority of small to medium sized, well run PHA's around the country would be able to serve their communities and program participants better if granted some of the flexibility supplied by the program. Applicants, tenants and program participants can be protected effectively while program innovations could increase housing choice and reduce unnecessary administrative red tape designed or imposed under a "one size fits all" program made to deal with large metropolitan areas as well as small rural developments.

PHADA had participated in the development of the HIP provision in the version of SEVRA passed by the House during the last Congress, and strongly urges the committee to include a similar section in the version of SEVRA under consideration by the current Congress.

SEVRA is a complex statute with many provisions that will have anticipated and unanticipated outcomes. The bill includes many provisions that PHADA has supported and it includes some provisions that PHADA has opposed. On balance, PHADA believes that the bill represents positive steps for the Section 8 program and for public housing. However, PHADA remains concerned that the bill lacks authorization and modest expansion for the MTW demonstration or HIP.

We concur with Secretary Donovan that elements of SEVRA point to the importance of authorizing and expanding MTW, accompanied by robust evaluation and protection of residents and participants. PHADA believes that the HIP provision of the bill approved last year meets those thresholds and deserves inclusion in a SEVRA bill reported to the full House of Representatives.

In answer to the questions distributed by the subcommittee:

How will the Section 8 Voucher Reform Act be effective in assuring the long-term viability of the Section 8 program?

The provision of the bill most influencing the program's long term viability concerns the funding allocation system. Although it appears that Appropriations Committees in the House and the Senate have addressed funding uncertainties of the past few years, permanent authorization of a stable funding method will be very helpful. Other attractive provisions of the bill (e.g. some rent changes, recertification and inspection requirements) are offset by provisions that make the program more difficult to administer (e.g. abatement and relocation provisions, developing Fair Market Rents for smaller geographic areas).

How will the Act lead to an increase in the supply of affordable housing?

Elements that encourage greater voucher utilization (e.g. removal of the prohibition on overleasing, loosening some restrictions on project basing HCVs) or ease administrative burdens for HAs and owners in the voucher program (e.g. reduced inspection requirements, less frequent recertifications for elders and people with disabilities) can help expand local supplies of affordable housing. These provisions can also serve to broaden geographic choices for voucher holders.

In what ways will the Act improve public housing agencies' administration of the Section 8 program?

The HCV program has become an increasingly complicated program to administer, involving the prediction of voucher holder behavior, local rental real estate market forces, and the future flow of federal funds. Stabilization of federal funding and simplification of program administrative processes can help improve program administration, expand the utilization of federal Housing Choice Voucher funds and increase housing choice in some communities.

In what ways will the Act improve the ability of low-income persons to participate in or remain in the Section 8 program?

Provisions that increase local administrative discretion and facilitate maximum use of federal housing assistance resources, such as expanding opportunities to project base HCVs, will tend to expand opportunities to participate in the HCV program. Funding stability and administrative simplicity for landlords will tend to expand housing choice for participants and encourage participating landlords to continue that participation.

Following are more detailed comments arranged by section in the draft language.

Section 2. Inspection of Dwelling Units

PHADA supports discretion for HAs to begin short term housing assistance while owners complete repairs to non-life-threatening HQS deficiencies. That discretion may help avoid unreasonable disruptions to participants' lives and give owners the flexibility to address housing quality deficiencies more deliberately. PHADA also supports HA discretion to conduct HQS inspections every 2 years, and to target inspection resources on housing and owners most prone to HQS difficulties, reducing administrative overhead. In addition, defining other federal, state or local housing assistance program housing quality inspections as meeting the Section 8 inspection requirement will help avoid duplicative and wasteful inspections and help reduce the program's administrative burden.

PHADA understands the intentions of provisions concerning abatement of Housing Assistance Payments (HAP) when HQS deficiencies in HCV subsidized housing are not remedied. However, these new provisions may result in some vouchers remaining unutilized for the better part of a year while landlords attempt to affect repairs and participants search for alternative housing. Abatement of HAP resulting from HQS deficiencies may also lower average costs of vouchers. In combination, these outcomes may reduce an HA's eligibility for renewal funding in a subsequent year.

PHADA also appreciates the intentions surrounding the provision of relocation assistance. However HQS deficiencies are not the only reason HCV participants may need to move through no fault of their own. It isn't clear why one class of participants has been singled out for this support or why resources that could help increase voucher utilization should be devoted to relocation assistance. PHADA is also concerned with complexities introduced by these relocation provisions.

Section 3. Rent Reform and Income Reviews

PHADA supports a number of proposed provisions that offer HAs opportunities to reduce administrative overhead and deliver housing assistance more efficiently and effectively. On balance, we believe that the provisions concerning reviews of income are helpful despite our misgivings with new statutory standards for interim recertifications that are currently subject to local discretion.

PHADA also remains concerned with income and rent provisions that may constrain HAs' rent revenues. These include increases in the deduction for elderly and disabled households, the deduction for minor household members, and the deduction of a proportion of earned income. One effect of these changes is to move HAs' public housing operating revenue from rent residents pay to Operating Subsidy the government pays. For several years, HAs have been able to collect only 88 percent of the federal Operating Subsidy obligation while most HAs are able to collect over 95 percent of rents receivable. Moving public housing revenue from rent to Operating Subsidy may reduce that revenue by approximately 10 percent.

Alternative Rent Structures

Although PHADA supports the use of alternative rent structures, few HAs may find the bill's provisions particularly attractive. The exclusion of the HCV program and of elderly and disabled

public housing residents from the provision along with the cap on rents means that an HA will have to maintain several different rent structures and maintain the capacity to calculate several different forms of rent for each public housing resident subject to an alternative rent structure. The provision complicates rather than simplifies the rent system for residents and HAs, and it offers little opportunity for administrative efficiency.

Reviews of income

Although PHADA is concerned generally with setting a \$1,200 threshold for interim recertification in statute, a threshold that has declined from \$1,500 in the previous bill adopted by the House of Representatives, the proposed language does clarify the Congress's expectations and provides HAs with a clear safe harbor for interim recertification policies. Until now, HAs had broad discretion over their treatment of interim recertifications in locally developed Admission and Continued Occupancy Policies. Agencies will still retain discretion to conduct interim recertifications at income change thresholds lower than \$1,200.

A triennial recertification requirement for households that receive fixed incomes could affect up to 52 percent of public housing residents and up to 45 percent of HCV participants. PHADA supports this significant reduction in the program's intrusiveness into households' personal affairs and in HAs' administrative responsibilities. Self certification of income adjusted for inflation during intermediate years, coupled with HUD's web based Enterprise Income Verification (EIV) system should provide sufficient safeguards against improper payment of housing subsidy to self certifying households.

Permitting HAs to use historical income information in redetermining income and rent should be very helpful to HAs and PHADA supports this approach. The current requirement to anticipate annual income is often a very difficult and uncertain exercise with assisted housing's clientele that has contributed to the impropriety of some payments of housing assistance. However, PHADA urges the committee to make this provision permissive for both initial certifications and for recertifications. Some PHADA members have expressed a preference for using anticipated income and PHADA believes they should have the discretion to use either option as they see fit.

Defining income determinations for other means tested federal assistance programs as a safe harbor for assisted housing programs may offer sponsors significant opportunities to reduce administrative overhead and eliminate duplicative, wasteful redeterminations. However, agencies must make arrangements with sponsors or administrators of other programs to gain access to that information, and the impact of this provision will likely depend heavily on other state and federal requirements (e.g. privacy and confidentiality laws and rules).

Instructing HUD that de minimus errors in income and rent determination do not represent a failure to comply with federal requirements will prove helpful to HAs. The provision may preclude some of the egregious findings that have been reported in HUD oversight reviews in the last few years.

Definition of Income

The new definition will exclude imputed income from assets. In PHADA members' experience including this imputed income rarely produces significant amounts of rent and has been a frequent source of calculation errors. The costs of determining such imputed income far exceed its benefits and PHADA strongly supports this change.

Adjusted Income

PHADA strongly supports a simplified version of an earned income disregard and supports application of the provision to all assisted housing participants rather than just public housing residents. Although the provision should encourage some assisted housing participants to gain earned income without dramatic increases in their housing costs, PHADA believes that alternative approaches could increase incentives for more households to increase earnings. In July, full time employees earning the minimum wage will have annual earnings that exceed the income exclusion ceiling by over \$6,000.

Alternative approaches to excluding 10 percent of the first \$9,000 of earned income may risk less lost rent revenue and offer participants greater incentive to increase earned income. These alternatives include offering a disregard of some substantial proportion of annual marginal earned income or offering participants a disregard of some proportion of annual earned income in excess of \$9,000. Although the second alternative is not progressive in its impact, it is simple and straightforward for participants to understand and for HAs to administer. Both alternatives offer significant incentives to increase earnings. PHADA is very interested in remaining engaged in discussions concerning the optimal feasible alternative for offering a rent incentive in assisted housing that encourages rising earned incomes, doesn't risk substantial losses of potential rent revenue, and represents a simplification of the rent calculation system.

PHADA does not object to increases in deductible amounts for dependents (\$20 per year) and for elderly and disabled households (\$325 per year), except as they impact rents, particularly in the Public Housing program. The provision for inflating these deductions annually will grow this impact over time.

The bill proposes to change the deduction for child care expenses to costs in excess of 10 percent of annual income. PHADA supported elimination of the deduction in the version of the bill passed by the House of Representatives in 2008. The deduction is used by a comparatively small number of participants and duplicates other federal support for the costs of child care expenses, including tax expenditures. PHADA continues to support elimination of this income deduction in the interest of equity, clarity and simplicity.

The proposed change in the medical expense deduction will reduce the amount of that deduction available to elderly and disabled households, and will reduce the programs' intrusiveness into the affairs of elder and disabled participants. The change will also reduce the administrative burden the medical deduction imposes on program sponsors. PHADA supports the provision.

PHADA has appreciated that several versions of SEVRA have included a provision designed to protect HAs from unanticipated declines in rent revenue that could have adversely affected agencies' eligibility for Operating Fund resources. However, the frozen rent revenue provision of HUD's asset management implementation is scheduled to expire in 2009 and the department is not continuing that element of the Operating Fund rule. As a result, PHADA does not anticipate that HAs' Operating Fund eligibility will be at risk in the future due to changes in rent calculation requirements that reduce rental income and increase Operating Subsidy eligibility.

Section 4. Eligibility for Assistance based on Assets and Income

In general, PHADA remains convinced that over income households do not generally remain in assisted housing for long and that they represent a human resource asset that only lightly burdens the properties while they do remain. The permissive exclusion of public housing residents from ongoing tests of income eligibility based on an explicit local policy avoids the eviction of the most successful residents in that program.

We understand concern over the potential for cash poor but asset rich applicants or participants obtaining rare assisted housing resources, but we remain convinced that requirements to assess the net values of liquid and non-liquid assets for ongoing eligibility consume administrative resources that might be put to better use. PHADA supports the bill's permissive exclusion of asset limitations for elder and disabled residents.

Section 5. Targeting Vouchers to Low Income Working Families

In general, PHADA supports efforts to make assisted housing available to poor working households. This provision expands the targeting standards to apply to households with incomes between 30 percent of Area Median Income and the poverty line, although the provision may complicate program administration for agencies operating in more than one jurisdiction.

Section 6. Voucher Renewal Funding

PHADA supports proposed changes to the Housing Choice Voucher program's funding allocation system. The changes will make an allocation system similar to that implemented by the Congress through appropriations bills permanent through authorizing legislation. The bill also permits using vouchers up to 103 percent of the previous years leasing rate, an improvement that reinstates a flexibility that HAs lost several years ago. In its 2010 budget proposal, the administration has proposed to eliminate the prohibition on placing vouchers under contract in excess of an HA's authorized vouchers as well.

The proposal bases funding on the, "preceding calendar year." That period may either be a year for which HUD has accurate information but is approximately 18 months old, or the period may be the more recent year for which HUD may not have accurate unit and cost information, delaying timely notices of funding levels. PHADA suggests consideration of a non-calendar 12 month period for which we can expect HUD to have accurate utilization and cost information and also provide the department with the time to notify sponsors of an accurate funding level in a timely manner.

The provision requiring that all reserves be exhausted before a sponsor can access the funding advance presents difficulties. If an agency depletes all reserves and borrows against its next year's allocation, and that allocation is prorated due to insufficient appropriations, sponsors may risk having to terminate existing voucher participants currently receiving assistance due to insufficient funds. PHADA suggests that sponsors' reserve levels not be a factor in receiving a funding advance.

On reallocation of recaptured funds, the current provision provides for priority based on funding utilization. PHADA suggests that the bill include a specific benchmark for sponsors to reach in order to receive reallocated funds. We believe that utilization of 97 percent of allocated funds is a sound benchmark to use for reallocating recaptured funds.

We appreciate that uses of reallocated funds are not limited to increasing utilization to a sponsor's authorized level. HAs may use funds to exceed authorized leasing levels (to 103 percent) so long as agencies have the resources necessary to support assistance payments for vouchers. HAs will be able to serve more households given their funding and local market conditions.

The bill's treatment of portability is appropriate, given the complexities of changing from the current scheme to one which minimizes or eliminates billing between agencies and administrative barriers to housing choice. PHADA believes that the current rules concerning portability are overly complex, impose unnecessary financial and administrative burdens on HAs and on participants, and unnecessarily restrict the ability of families to move between jurisdictions as they choose. PHADA looks forward to working with HUD to develop regulations that implement portability in a simpler and less burdensome manner.

Section 7. Administrative Fees

PHADA supports the distribution of administrative fees based upon voucher utilization, but the bill also authorizes the Secretary of HUD to modify the fee structure by regulation. PHADA supports the continuing use of the formula in Section 8(q) of QHWRA. If fees are updated, they must take benefit as well as wage inflation information into account as the inflation of benefit costs has been higher than wage inflation.

Section 10. Performance Assessment

The new bill authorizes an apparently additional performance system, a provision that surprises PHADA. If the proposal is a simpler replacement for SEMAP, the proposal appears to be an improvement. However, we urge that HUD be required to consult with stakeholders in changing the existing assessment system.

Section 12. Rent Burdens

PHADA believes that HUD possesses the information required from the department in this provision. The requirement for a review of payment standards if a certain proportion of voucher

users pay more than 40 percent of their income seems unnecessarily burdensome to program sponsors. Voucher holders choose to occupy housing with rents above 30 percent of their incomes, and reviews of payment standards should be based on market conditions rather than on the behavior of existing voucher holders.

Section 13. Fair Market Rents

PHADA supports the provision that would set FMRs for smaller geographic areas than is currently the practice. Such rent standards will likely respect finer market differences and can open additional housing opportunities for voucher holders than is currently the case.

Section 17. Access to HUD Programs for Persons with Limited English Proficiency

PHADA supports provisions of the bill that require HUD 1) to convene stakeholders to identify vital documents, and 2) to translate those documents and provide central translation services. The department's proposed implementation of Limited English Proficiency (LEP) requirements unduly burdened HAs, placed housing program sponsors at unnecessary risk, and imposed potential unanticipated financial burdens on HAs.

Section 18. Authorization of Appropriations

The authorization of 150,000 vouchers annually for 5 years is welcome. Although budget realities in the coming years may preclude such an ambitious expansion of the program, PHADA appreciates the change that this section represents.

Section 19. Agency Authority for Utility Payments in Certain Circumstances

PHADA appreciates the motives behind this permissive provision. A landlord's failure to pay utility bills should not adversely affect a voucher holder's ability to continue to live in safe, decent and sanitary housing. However, as with some provisions in Section 2, PHADA is concerned that the HA's role approaches that of the property owner's and that the program includes no support for HAs carrying out these kinds of initiatives other than the existing standard administrative fee.

Conclusion

SEVRA is a complex statute that may have some unpredictable outcomes. PHADA has supported many provisions in the bill but has opposed some other provisions. On the whole, the bill represents positive steps for the Section 8 program and for public housing, but PHADA remains particularly concerned that the draft bill lacks authorization and modest expansion for the MTW demonstration or HIP. PHADA believes that the HIP provision of the bill approved last year meets the thresholds described above and by Secretary Donovan. MTW or HIP authorization should be included in a SEVRA bill reported to the full House of Representatives.