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OVERSIGHT OF HUD AND ITS FISCAL YEAR 2009 BUDGET

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

ON

THE ADMINISTRATION'S BUDGET REQUEST FOR HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS

WEDNESDAY, MARCH 12, 2008

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C O N T E N T S

WEDNESDAY, MARCH 12, 2008

WITNESSES

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

OVERSIGHT OF HUD AND ITS FISCAL YEAR 2009 BUDGET

WEDNESDAY, MARCH 12, 2008

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10:04 a.m., in room SD–538, Dirksen Senate Office Building, Senator Christopher J. Dodd (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN CHRISTOPHER J. DODD

Chairman DODD. The Committee will come to order.

I want to welcome everyone here this morning to a very important hearing to conduct oversight of the U.S. Department of Housing and Urban Development and examine the administration's proposed budget for fiscal year 2009. The Department of Housing and Urban Development, or HUD, plays a vital role, as all of us know, in the lives of millions of Americans around the country, both through direct housing assistance and initiatives which strengthen entire communities.

Unfortunately, the administration's budget once again contains significant cuts to our investments in working families, their housing, and their communities. This budget, in my view, fails to recognize the realities confronting many of our citizens across the country. Our Nation is confronting a dual housing crisis.

One is the crisis of foreclosures, falling home prices, and the deterioration of the overall housing market. Obviously, we are working quickly, or trying to, to stop the rising tide of foreclosures and to restore confidence in the housing market.

The other housing crisis, what I call a "silent crisis," if you will, has been affecting low-income families for years. As rents and home prices have significantly risen over the last decade, millions of low-income families have been priced out and are unable to afford rising housing costs. The gap between the wages of working Americans and their housing costs continues to widen.

The Joint Center for Housing Studies found in their report, "The State of the Nation's Housing 2007," that in just 1 year, the number of severely cost-burdened households, those that pay more than half of their income toward rent, jumped by 1.2 million, to a total of 17 million. This is one in seven U.S. households. These families struggle to pay rent while also paying for food, medications, transportation, child care, and other family necessities.

In my view, the administration has failed to address this silent housing crisis in its budget for fiscal year 2009. This budget contains serious and harmful cuts, in my view. Investment in public housing capital needs is cut by $415 million. That is a 17-percent reduction. HOPE VI is eliminated. That program has been a huge benefit to millions of people across the country, including in my own State of Connecticut. Housing for people with disabilities is cut by $77 million, or 32 percent. Housing for senior citizens is cut by $195 million; that is a 27-percent reduction. Community development block grants are cut by $659 million, an 18-percent reduction.

I might point out that, given the first crisis I have mentioned of falling house prices and foreclosures, that community development block grant money can be a great assistance to mayors and county supervisors and their support teams in trying to provide some relief in rehabilitating homes that have been foreclosed and causing further deterioration in their communities.

In addition, vouchers and project-based rental housing are both significantly underfunded. According to HUD, project-based housing, which provides 1.3 million affordable housing units, is short by $2.8 billion. Tenant-based vouchers are also underfunded. According to analysis of recent HUD data, the Center on Budget and Policy Priorities estimates that 100,000 families, including thousands of children and seniors, could lose their voucher assistance and possibly their homes under this budget proposal.

We must reaffirm our commitment to investing in housing for all Americans. I am old enough to remember when this issue did not have any partisan overtones to it. In fact, some of the strongest advocates for housing were some of the most ideologically conservative people who sat on this panel long before my colleague from Alabama and I were here. In fact, a predecessor from his very State was "Mr. Housing" in many ways, and it is tragic in a sense to watch this subject matter move into partisan politics and make it difficult for people who have the most fundamental of needs—decent shelter—to be met.

Stable housing is the bedrock of families and communities. Without stable housing, children do less well in school and are more likely to have serious health problems, including asthma and lead poisoning. Parents need stable housing to access schools, employment, and health care. Whole communities suffer when residents are poorly housed. At a time when homeowners and renters are being forced out of their homes, our housing safety net should be strengthened. Unfortunately, the budget proposed by the administration significantly undermines, in my view, the ability of millions of low-income families to live in safe, decent housing and strong, stable communities.

In addition to looking at the HUD budget, this hearing presents an opportunity to conduct needed oversight, and I want to suggest right at the outset that I am deeply troubled by reports over the past couple of years of impropriety at the Department at the highest levels. These allegations are serious and undermine the ability of the Department to effectively address the needs of people in communities around the country. We have a duty on this Committee to ensure that taxpayer dollars are being used properly, and we take these allegations very, very seriously and await the results of independent investigations into these matters.

I want to serve notice, Mr. Secretary, that this Committee's oversight of you and the Department will be ongoing and rigorous. I watched the HUD scandals of the late 1980s, and I am not going to allow them to be repeated under my watch.

In addition, I have been deeply disappointed by the responsiveness from the Department to Committee concerns. We have not received responses to a letter on the shortfall in Section 8 Project-Based rental assistance, sent in September of last year, nor have we received a response to a letter I sent with Senator Menendez on HUD's limited English proficiency policy that was sent last March, almost a year ago. These responses are just unacceptable and show a lack of respect for the oversight function of this Committee—a responsibility all of us here take very, very seriously.

The investments made by the Federal Government as well as State and local governments in housing and community development not only assist families in need, these investments benefit all of us as a Nation. Safe, decent, affordable housing is critical to strong communities and a productive citizenry. These investments are investments in our parents as well as our children. And I look forward to hearing from the Secretary and from our very distinguished panelists on the second panel of witnesses on these important issues.

Let me just say at the outset here—and I am going to stay as long as I can, but my sister-in-law's mother passed away 2 days ago, and I am going to attend the funeral this morning. So I am going to stay as long as I can, but I will be going across town to a funeral service, and so I will not be able to stay as long as I would like to. And I have asked Senator Reed and Senator Menendez, who will be here shortly, to help chair this hearing, and obviously, Senator Shelby will be here, who has chaired this Committee and does so very effectively.

And though I am not going to be able to stay, I also want to take a second, if I can, to welcome Diane Randall, who will be testifying. Diane Randall is the President of the Connecticut Partnership for Strong Communities. She has done impressive work in bringing people in my home State together to find affordable housing resources and to end homelessness. In addition to her work with the Partnership for Strong Communities, Diane is on the board of the Connecticut Housing Finance Agency, the Federal Home Loan Bank, Boston Affordable Housing Advisory Committee, and the United Way of Connecticut Board of Directors. She is a very significant citizen in our State and has made a significant contribution, and I apologize again if I am not here to listen to her testimony.

With that, let me turn to Senator Shelby.

STATEMENT OF SENATOR RICHARD C. SHELBY

Senator SHELBY. Thank you, Mr. Chairman. I want to also welcome to the Committee all of today's witnesses, particularly Secretary Jackson.

While mortgage delinquencies have been largely concentrated in the private subprime market, FHA has not been immune from a similar increase in its own delinquencies. For the second year, OMB is estimating that FHA's single family program costs on a present value basis will exceed revenues, requiring either an appropriation or an increase in insurance premiums.

According to a recent actuarial analysis, FHA's single family program has a present value of future cash-flows of negative $3.9 billion. Secretary Jackson, I am greatly concerned that if FHA continues on its current path, the American taxpayer will be presented with a rather large bill here. I am also concerned that some of FHA's financial problems are as a result of its lax attitude toward addressing fraud in its single family program.

In January, HUD's Inspector General reported that staff in the homeownership centers did not consistently refer potentially fraudulent loans to the Office of Inspector General or require indemnification from the lenders when appropriate. Mr. Secretary, I hope this is an issue you will address in today's hearing, as Chairman Dodd has alluded to.

Earlier this year, the Congress passed and the President signed into law a so-called economic stimulus package, intended to jump-start lagging economic growth. I have said before that the size of the stimulus package was not sufficient in my judgment to make any meaningful difference in a multi-trillion-dollar economy. I hope I am wrong. Whether it has the desired effect remains to be seen.

Some Members of the Senate, however, already have expressed a desire, Mr. Secretary, to pass a second stimulus package aimed directly at housing. As we have the administration's expert—you, Mr. Secretary—on housing here today, I look forward to hearing your views on the need for a housing stimulus package, if any.

In addition, I look forward to hearing your thoughts on the recent increase in both the FHA's and the GSEs' loan limits. We welcome you again to the Committee, where you have spent a lot of time.

Chairman DODD. Thank you, Senator Shelby.

Senator Casey.

STATEMENT OF SENATOR ROBERT P. CASEY

Senator CASEY. Mr. Chairman, thank you very much for calling this hearing, and I will leave most of my time for questions, and a lot of us will be reviewing budget oversight matters in terms of the budget for your Department, Mr. Secretary. But I will have some questions that will pertain to other matters, and I will submit questions as to the budget oversight functions later. But I will leave my time for questions.

Thank you.

Chairman DODD. Senator Allard.

STATEMENT OF SENATOR WAYNE ALLARD

Senator ALLARD. Mr. Chairman, I would like to thank you and also Ranking Member Shelby for holding this hearing to review the fiscal year 2009 budget of the Department of Housing and Urban Development. I would also like to welcome Secretary Jackson to the Committee. And, Secretary Jackson, we appreciate you making time in your busy schedule to be here.

HUD has a long history of problems. For years, it was the only Cabinet-level agency on GAO's high-risk list. However, I want to take this opportunity to publicly commend Secretary Jackson and

Secretary, now Senator, Martinez before him for their progress on this point. Last year, the remaining HUD programs were removed from GAO's high-risk list. This is a tremendous accomplishment and represents a great deal of work. I would encourage Secretary Jackson and all the dedicated staff at HUD to remain focused on maintaining this positive direction.

Certainly one of the biggest challenges HUD faces is the tight fiscal scenario. This is a constraint shared by all agencies. No one denies that the budget for HUD—or any other agency, for that matter—is insufficient to meet every single perceived need in this country. Increasingly, the definition of need seems to be a bottomless well. I believe, though, that this budget strikes a reasonable balance at meeting the most pressing needs while still being responsible. I support the administration's decision to pursue fiscal responsibility in these times. It would be irresponsible to continue to overspend and leave American debt for future generations.

It is easy to look at the proposed HUD budget and complain that it lacks money. Certainly needs are great, and in a perfect world, we would have the money to meet all needs. However, the administration has had to make some very difficult choices, and the choices at HUD were, I am sure, no exception in their difficulty. The budget is evidence of those difficult choices, and I commend the administration for facing reality and not simply taking the easy way out.

I want to reiterate a position that I put forward at many previous hearings. HUD's success as an agency is not defined by a budget number. More money does not necessarily mean more programs, as determined—more money does not necessarily mean more people are served or that people are served any better. This would seem to be especially true when reviewing the effectiveness of HUD's programs as determined under the PART analysis. Forty-five percent of HUD's funding is spent on programs that we either know that are failing to produce results or we have no way to tell whether they are producing any results. Why do we talk at such length about dollars going to HUD but fail to look at what is coming out the other side? I for one intend to keep looking at both sides of the equation.

I appreciate the opportunity to do so at this hearing. Mr. Secretary, your testimony will be helpful to this Committee, and thank you.

Chairman DODD. Thank you very much, Senator.

Senator Brown.

STATEMENT OF SENATOR SHERROD BROWN

Senator BROWN. Thank you, Chairman Dodd, and I was intrigued by your comments that in your early days and your father's time in the Senate that housing was a bipartisan, non-ideological issue. One of my predecessors, "Mr. Republican," Bob Taft, perhaps the most conservative Member of the Senate in the 1930s, 1940s, and into the 1950s, was one of this Committee's and this Senate's best advocates on housing issues. So I think your comments were very well taken that way.

Secretary Jackson, thank you for coming to Cleveland last month. Thank you for answering questions and working with us locally.

I have had some 85 roundtables around table in 55 of the 88 counties, asking 20, 25 people to sit around a table with me, and I asked them questions about all kinds of issues that affect them. And in almost every community, whether it is a community the size of Delaware or the size of Columbus, a medium-sized city like Lima or Canton, virtually everywhere people talk about housing and talk about foreclosures and all the problems that we face. And we all know that housing problems do not end with the problems, with the travesty and tragedy inflicted on those who actually have foreclosure thrust upon them, but the neighborhood and the community and the city government and the city service and police and fire and all that.

Our responsibility is twofold: we must act to prevent future foreclosures, and we must help the people who have lost their homes.

Last year, I worked with my colleague Senator Casey and also with Chairman Dodd and Senator Schumer to secure $180 million in funding for foreclosure prevention counseling so fewer households would lose their homes. It would be irresponsible to cut this funding this year when the need for counseling is as great as ever. Neighborhoods continue to lose their value at a rapid rate. Without upkeep, or in some cases without knocking these homes down, we face further problems in that community. And the counseling services are so important, as are community development block grants. We have asked in this new legislation that Senator Shelby talks about, for an additional $4 billion for community development block grants, yet the President's budget cut CDBG by 22 percent.

There are roughly 14 million households in our country paying more than 50 percent of their income toward housing, yet because of budget shortfalls at HUD, owners of project-based Section 8 properties are being granted short-term contracts rather than the year-long contracts they previously received. This coupled with late payments from HUD this summer, which forced many property owners to dip into personal saving or go further into debt to meet their monthly financial obligations, has discouraged property owners from renewing, as you know, those HUD contracts. Just last week, my office received notice of a project-based Section 8 property that would not be renewing its contract with HUD. By September, all residents in this Elyria property—a city of 50,000, 30 miles west of Cleveland, all residents in this Elyria property will be paying fair market rent. This will have a devastating effect on the 192 tenants at a time when waiting lists for Section 8 housing are up to 2 to 3 years long in Ohio. The end result is that at a time when the demand for affordable housing is rising, property owners are losing confidence in HUD's ability to pay its share of low-income rents, and now property owners want to opt out, not because they don't want to provide affordable housing but simply because they can no longer afford to. Now is clearly the time to invest in affordable housing, not to cut the programs that serve Americans most in need.

The Federal budget, as many have said, is a document that reflects the needs and priorities of this Nation. We are paying $3 billion a week in the war in Iraq, much of that going to subcontractors like Halliburton instead of spending that money in local business—or having local businesses rebuild Steubenville and Lima and Mansfield and Marion. With a growing elderly population, how can we afford to cut senior housing programs? How can we cut housing programs that assist disabled individuals? How can we turn our backs on families who, with counseling, could save their homes?

Our needs are clear. I hope that you will reconsider as this process goes forward some of the President's, I believe, unfortunate cutbacks on programs that really matter and priorities that I think the majority of the people in this country hold dear.

Thank you.

Chairman DODD. Thank you very much, Senator.

Senator Martinez.

STATEMENT OF SENATOR MEL MARTINEZ

Senator MARTINEZ. Thank you, Mr. Chairman, Senator Shelby.

I welcome my colleague and good friend, Secretary Jackson. I am delighted to see you this morning, and I remember sitting where you sit today and hearing also about all the draconian and horrible things that we were doing at HUD, and actually I also know of the very many good things that you continue to do at HUD. I am particularly impressed with the efforts that are continuing to end homelessness in America. I want to begin with that because it is something that I thought was terribly important during the time that I was at HUD and the tremendous gains that have been made under the leadership of Philip Mangano and the great work that he has been doing, igniting across the country the passion for ending chronic homelessness. Many communities, and an increasing number of communities across the State of Florida, are each and every day moving forward to try to also within a local plan develop a way in which they can tackle the issue of chronic homelessness. That is only one of the many, many areas in which I know a lot of progress has been made.

I also know we worked greatly to try to increase the homeownership of many, many American families, and as we did, we were doing that with a great passion for the American dream that it opens to many families to be able for the first time ever to own a home, also understanding that we were doing so for families that were moving out of a lifetime of renting into homeownership, sometimes with downpayment assistance, sometimes on a very fragile basis. And, unfortunately, through the work sometimes of people who would prey on the least informed, these folks are falling into bad loans, loans that they could never have sustained. As ARMs reset, adjustable rate mortgages that they never should have been given for increasing rates that they could not afford, we obviously are going to see some foreclosures. For some foreclosures there is no answer but foreclosure. But increasingly we know that there are many things which I know you have tackled to try to help families.

Nothing we could do would be important to help struggling families to keep their home. I think far more important, frankly, than counseling money—I mean, because counseling is only going to bring people to the table to sit down and figure a way. But the most helpful way we could do it is to pass an FHA modernization so they might be able to refinance into an FHA loan. FHA modernization I think would help tremendously distressed families to be able to stay in their homes.

We do face serious problems, and we have—in Florida, I know many families have great concern about the price of their homes and their mortgages; the high cost of casualty insurance after a spate of hurricanes some years ago, this has been a real problem; the high cost of property taxes; and, obviously, the slowdown in the Florida economy as a result of the subprime problem. We all know that the high record rates of foreclosures are hurting more than just families. They devastate a whole community and send shock waves through our financial institutions and markets.

With the fiscal year 2009 HUD budget, we have the opportunity to advance proposals that will preserve and promote homeownership, respond to the troubled mortgage market, foster healthy and sustainable communities and end chronic homelessness, and give HUD the resources it needs to manage effective and efficient programs.

I am pleased that the administration's budget continues to place a great emphasis on affordable rental housing, homelessness assistance, public housing operations, and promoting homeownership.

There are areas where this budget does not go far enough to provide organizations in Florida and across the country with the resources they need to help build and maintain strong communities. I have been disappointed for some time that OMB has chosen to zero out funding for HOPE VI, and there is still a substantial need for this program. Senator Mikulski and I have introduced legislation to reauthorize and reform HOPE VI so that it can continue to revitalize neighborhoods and cities across the country.

So, Mr. Secretary, I welcome you back to the Committee. I thank you for the great work that you are doing, and I look forward to hearing your testimony and how you intend to manage HUD for the next year.

Chairman DODD. Thank you, Senator Martinez, and my hope is that FHA modernization will also move along, and I probably need to chat with you a little bit about that at some point as well.

Senator Menendez.

STATEMENT OF SENATOR ROBERT MENENDEZ

Senator MENENDEZ. Thank you, Mr. Chairman. Let me thank you for holding a very important hearing. And, Mr. Secretary, thank you for your willingness to talk about our Nation's housing priorities here.

Let me be quite frank. Based on this budget, I think we share a different set of priorities. While at first glance your budget seems to increase funding at HUD, this is one of those cases in which the devil is truly in the details. This administration cut some of the most critical and important housing programs, and at the end of the day, it seems to me that our seniors, our disabled, and our low-income families bear the brunt of those budget cuts.

The public housing capital fund, which is our Nation's housing authorities' dependency, is cut by over $400 million. HOPE VI, as Senator Martinez said, which is essential—I have seen it in my home State of New Jersey, how it is not just changed public housing but transformed lives—is completely eliminated. Disabled and senior housing is cut by $77 million and $195 million, respectively.

And these are just the national numbers. When you take a closer look at my home State of New Jersey, the cuts really become crystal clear to us. Under this administration's plan, New Jersey would lose almost $24 million in funding for the community development block grant programs, including over $1 million individual cuts to Jersey City, Newark, Essex, and Union Counties. Furthermore, New Jersey would lose over 3,000 Section 8 vouchers, and that is in addition to the fact that HUD is not paying present obligated payments to project-specific—we keep hearing from representatives of NAMA who tell me that, "I have got to pay my mortgage, I have got to pay my utilities, but I am not getting my payments that are already obligated—that are already obligated." And we would lose $14 million in public housing capital funding.

So the details of the budget are where the real damage is done, and those details are a difference between a place to call home and a place on the street.

Now, I look forward to hearing what you have to say, but I simply do not understand how in this current housing crisis, the administration can defend these types of cuts to these types of programs. People are losing their homes all over this country, and this budget just seems to push more families out their front doors. As far as I am concerned, it is an embarrassment, and it is an insult to the American people. We are in a crisis, and the American people are looking to their Government to help save their homes, not to take more keys out of their hands. I think this budget does that.

Finally, Mr. Secretary, I have to be honest with you. This is my 36th year of public service. If I waited a year to get an answer to a letter—this letter was sent March 15th, with the Chairman, of last year. Today is March 12th. March 12, 2008. This was March 2007. I certainly would not be here today if that is the way I responded. I think we deserve a response. Whatever your response is, I think we deserve a response. When our Nation is facing a true housing subprime crisis, I expected far more in this budget, and I am looking forward to see how you can justify it.

Chairman DODD. Thank you, Senator Menendez.

Senator Carper.

STATEMENT OF SENATOR THOMAS R. CARPER

Senator CARPER. Thank you. Thanks, Mr. Chairman. Thanks for pulling this together, and, Mr. Secretary, thanks for joining us. Who was your predecessor as HUD Secretary?

Secretary JACKSON. Senator Martinez.

Senator CARPER. Senator Martinez. As I walked in, I watched him questioning you, one generation questioning another generation. He really left you a mess over there at HUD, didn't he?

[Laughter.]

Senator MARTINEZ. Wait a moment.

Senator CARPER. You are trying still to clean it up, I know, but we are glad that you are here. Thank you for joining us.

Let's talk a little bit about the present situation that we face, and your folks have been very much involved in it. But the economic downturn that we are dealing with is many respects a direct result of years of predatory lending practices, of weak credit ratings in an ever rising market. The credit quality of customers was consistently swept under the rug by a lot of unscrupulous lenders. Loans were given to customers without a whole lot of regard to their ability to repay in many instances. These loans were bundled into securities and given a AAA credit rating and sold around the world. And investors around the world bought those magical securities that kept providing above-market returns. This all has led us to, for a lot of families, the end of the dream of homeownership. It has either ended it, or for a bunch of folks it has been indefinitely postponed.

I want to turn to some new initiatives, and I want to acknowledge the work that you and some of your folks are doing, and others in the administration. FHASecure and Hope Now are steps in the right direction. Obviously, we have got to be creative, and we have to think of new ways to help homeowners that are in distress or those that are going to be in distress.

Project Hope Now is, I think, a very good idea and well intentioned. It was moving slowly, and I realize it is moving faster, we are getting a little more pick-up on it. But still it is not moving fast enough.

We are all trying very hard to put together some programs here in the Congress that communities can use to mitigate the foreclosure crisis.

Secretary Paulson was before us about 3 weeks ago, along with Chairman Bernanke, and I asked Secretary Paulson, I said, What are your top three priorities, what are the administration's top three priorities for housing recovery? And this is what he mentioned. First, he said, a strong independent regulator for GSEs—Fannie and Freddie and the home loan banks; but, second, modernization of FHA, bring FHA into the 21st century. And he mentioned the idea of making it possible for housing authorities to issue—to actually give revenue bonds that could be used to help in some cases to refinance homes.

I am glad that in your own testimony you have mentioned FHA, but I was disappointed that you made no reference to GSE regulatory reform. As HUD Secretary, part of the answer is there are sort of two masters, but you are clearly one of them, and the major one. But I read with alarm that the sales of GSE mortgage-backed securities are starting to slow down. We need to do everything possible to maintain a liquid market, and I applaud the Federal Reserve for their recent efforts on the monetary front.

I encourage you to use your position to do more to strengthen the regulatory structure of the GSEs and protect the secondary market. Hopefully we will soon have an FHA bill, a consensus between the House and Senate. I know our Chairman and Senator Shelby have been working with counterparts in the House to get us there. And I look forward to working certainly with our Chairman and with my colleagues, but also with you and others in the administration on GSE regulatory reform and to make sure that they have a strong, independent regulator.

The last thing I want to say is we had a wonderful public event at the University of Delaware earlier this week to announce, along with the Federal Home Loan Bank of Pittsburgh, the creation of—

and funding—recognition of eight or nine blueprint communities, and the Home Loan Bank of Pittsburgh provided, I think, about $200,000 to nine communities in Delaware to help them to prepare their development and revitalization plans. It is a program that they call the blueprint community program. And I applaud the work of the Pittsburgh Home Loan Bank in funding the program. This funding is not from their affordable housing program, but it is a separate program that is funded solely from their profits, and each community team is made up of at least one resident, the banker and a nonprofit representative.

I just want to encourage you, as a member of the Federal Housing Finance Board—and I think that is the regulator for the Federal home loan banks today—to encourage other Federal home loan banks to adopt similar programs, to model really what Pittsburgh has done.

And, last, I want to say that one community in Wilmington called Riverside received a blueprint community grant to prepare a development plan. Across the street from Riverside was a blighted and crime-ridden neighborhood known as East Lake, about 2 miles from where I live in Wilmington, Delaware. And thanks to a $29 million HOPE VI grant, it is now a thriving and vibrant community, really a beautiful community. The folks at Riverside are going to need every penny of their $25,000 grant to come up with a program to do what HOPE VI did. And I was disappointed—I mentioned this as well, but I was disappointed, really disappointed to see the program was eliminated entirely from the HUD budget. I think we are going to need more HOPE VI programs than less.

Thanks very much for being here. We look forward to hearing from you today.

Thanks, Mr. Chairman.

Chairman DODD. Thank you, Senator Carper.

Senator Reed, any opening comments?

STATEMENT OF SENATOR JACK REED

Senator REED. Mr. Chairman, thank you. Mr. Secretary, let me, if I can—as I mentioned earlier, I am going to be departing, but let me, if I can, before you get to your statement, ask you a question. Senator Martinez raised the issue of FHA modernization, and as you know, the stimulus package raised the FHA loan limits for 1 year throughout the Nation. On December 31st, of course, they will go back to where they were. And I wonder if you would agree that it is important for FHA to be a significant long-term presence even in high-cost communities around the country. What is the reaction?

Secretary JACKSON. First of all, Mr. Chairman, let me, before I answer that question, apologize to you and to Senator Menendez. I am not aware of the letter, but I take full responsibility, and I am extremely sorry that we have not gotten back to you on that process. And I will make sure that you get an answer very quickly. And I think each one of you really has the right to be very disturbed if it has been a year since we responded to you. That is not proper, nor is it correct, and I accept the full responsibility.

Chairman DODD. There is another letter, too, that is not as ancient as that one, but there is another letter we——

Secretary JACKSON. I will look at those.

Chairman DODD. Did you want to respond to the FHA issue? Because we are wrestling with these issues up here, and Senator Martinez raised it, and I would just like to, before I have to depart, get a quick answer.

Secretary JACKSON. I really think that as long as it is an acceptable level that can address the issues, especially in these high-cost markets—and we are talking about Virginia all the way back to Maine, we are talking about Utah all the way back to California. I think, yes, we should do everything in our power, because right now we are priced out of the market. And when I made the announcement last week while in California with the Governor talking about the new level for the next 10 months in 729, it was received extremely positively in Los Angeles County, Orange County, where for the first time they knew we would be able to make loans to people under FHA, and they were extremely pleased.

Chairman DODD. I thank you for that, and it is helpful. Again, we are all conscious of these things, but obviously these programs are designed to work nationwide, and there are disparities, obviously.

Secretary JACKSON. That is correct.

Chairman DODD. And where you have higher costs, clearly to deprive the ability of FHA to make a difference there is certainly not what we ever intended with that. So I appreciate your answer to that question.

And, Mr. Secretary, let me just also mention—I am not going to get into it here. Others may raise some questions. But I am going to submit a letter to you, if I can, involving Mr. William Hairston, regarding Columbia Residential and Michael Hollis, and I would like you to respond to inquiries about that. I will submit in the form of a letter rather than a question here this morning to the Committee at the appropriate time.

With that, why don't we take your opening statement.

STATEMENT OF ALPHONSO R. JACKSON, SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Secretary JACKSON. Thank you. Thank you very much, Chairman Dodd, and I want to thank the Ranking Member, Richard Shelby, and

Chairman DODD. I apologize for him. He has either a markup or the Defense Appropriations Subcommittee and he asked politely to be excused, and he will try to come back if he can. But that is a very important matter for him he has to attend to this morning.

Secretary JACKSON. Thank you. And the Members of the Committee for the opportunity to appear here before you today.

Mr. Chairman, I am here to present the fiscal year 2009 HUD budget, but before I do that, Mr. Chairman, I want to thank you and the entire Committee for the priority given to the FHA modernization. We need this legislation right away. As you know, as you and your colleagues finish work on this important legislation, I should mention the administration's remaining priorities with respect to what the final bill looks like:

First, the legislation must allow HUD to address the recent explosion in loans where sellers provide buyers downpayment assistance and then add the price to the homes. These loans have a foreclosure rate 2 to 3 times the norm. They are costing hard-working Americans their homes, and these types of loans have pushed FHA to the brink of insolvency.

Second, Congress should allow FHA to proceed later this year with some flexibility in setting premiums. I assure you we would have no intentions of increasing premiums on our bread-and-butter customers. But a few modest changes will strengthen FHA's ability to offer safe alternates to homeownership who want to refinance from the high-cost subprime loans. It will actually allow us to reduce the premiums for potential homeowners with low incomes. Such legislation would fit well with the general direction of the President's budget.

The proposed budget is fiscally sound and represents a historical investment of $38.5 billion for programs at HUD. This is an increase of more than $3 billion, or 9 percent over last year. The budget is almost $1 billion more than our current budget authority. This funding will be timely and on target for the people who are served by the Department. We need this budget to maintain the current homeownership and stimulate new purchases. It will help us expand our current efforts.

Let me put the budget in context. Last year, President Bush and I introduced FHASecure to help more Americans facing foreclosure refinance into a safer, more secure FHA loan. We did this using the current regulatory authority, and we have been able to make FHA available to more qualified families. There has been a noticeable increase in the number of closings. We believe that FHASecure will help about 300,000 families refinance into affordable FHA-insured mortgages. FHASecure has proven to be extremely valuable.

Mr. Chairman, you should also know that in only 5 months, from September 2007 through January 2008, FHA has pumped more than $37.5 billion of much needed mortgage activity into the housing market, and more than $14.7 billion of that investment came through FHASecure. FHA modernization would greatly assist our efforts.

As you know, the economic stimulus package provided a temporary 10-month window. We announced the new loan limits last week when I was in California. This will help hundreds of thousands of people nationwide, perhaps as many as 250,000. But this is no substitute, in my mind, for FHA modernization, which would waive the appropriate loan limits permanently and also provide other important changes that would benefit American homeowners.

In addition to these actions, we are also taking steps to ensure it is easy for homeowners to understand the fine print when they do sign on the dotted line. That is why we are committed to RESPA reform. We are in the process now of publishing the Real Estate Settlement Procedures Act rules and hope it will bring much needed transparency to the homebuying process. Now the budget will work in concert with all other actions. For instance, the proposed budget appropriately increased the funding for housing counseling. America needs the President's request for $65 million in the budget for housing counseling. Those funds, in addition to NeighborWorks $180 million, provide great services to those who want to own a home. Many Americans facing foreclosures would have greatly benefited from housing counseling. We know it works. Last year, 96 percent of the households that saw HUD-approved housing counselors and completed the program avoided foreclosure. This fund will help partially address today's crisis and prevent such a situation from happening in the future.

We also need to continue Government efforts to partner with the private sector to help build back the housing market. The Hope Now Alliance is a good example. Hope Now is a private sector volunteer industry effort to address foreclosure through freezing mortgage interest rates and working directly with financially troubled homeowners. I also commend the recent effort by the Hope Now Alliance members to provide temporary pause for homeownership in the foreclosure process. These actions provide direct assistance to those in need right now. They are the sort of responses that provide quick help for homeowners in need.

As in the past, Mr. Chairman, the largest part of our budget is for affordable rental housing. Combined, this budget seeks more than $29 billion for our Rental Assistance Program, which we expect will be able to help more than 4.8 million households. We are mindful of the continuing need for more affordable rental housing, especially as low- and middle-income workers still find themselves priced out of the real estate market. We need to maintain the units currently available and expand the numbers. This budget will help us do that.

Finally, Mr. Chairman, the homeless must not be forgotten. We are making strides and cutting the number of chronic homeless with our "continuum of care" approach. For the first time ever, we saw a decrease in the number of chronic homeless last year, a drop of 12 percent. We must continue the progress. Our budget once again seeks an increase for homeless programs to continue this good work.

Mr. Chairman, I know that you are mindful of the need to help our Nation's homeless veterans. Americans are deeply, profoundly grateful for the service and sacrifice of our Nation's veterans. In the proposed budget, there is a request for $75 million for our Veterans Affairs Supportive Housing Program. Prior to 2008, this program had not been funded since 1993. With the Veterans Administration, we will create an additional 9,800 vouchers for fiscal year 2009. This will bring the total to approximately 20,000 homeless veterans being served through housing and social services, double the number of available housing vouchers.

Overall, this is a good budget for the Department—balanced, reasonable, appropriate, and workable. It allows us to operate within a framework of cooperation and partnership with related Federal agencies, other levels of government, and the nonprofits.

Mr. Chairman, as we proceed through the budget process, I look forward to working with you and Members of this Committee. Thank you so very much.

Senator REED [presiding]. Thank you, Mr. Secretary.

I will first recognize Senator Casey, and then I will recognize Senator Allard. Senator Casey.

Senator CASEY. Mr. Chairman, thank you very much.

Mr. Secretary, I listened to your opening statement, and I was looking at the text of it as well. And in the course of your opening, you covered a lot of important subject areas. You talked about FHA. You talked about your appropriation. You talked about the foreclosure crisis that has gripped the country and so many of our families. You talked about the Hope Now Alliance. You talked about homelessness. All of that and so much more of what is in your statement is critically important to the country, and it is important to the work that you do.

But I was struck by one thing that was not—or one area, I should say, that was not in your statement, and that was about the controversy that has been swirling around your stewardship of this Department for too long. Among other publications, I am just reading from the National Journal, November of 2007, and that is a couple months back, but I think most of this is still relevant. It says, and I quote—I am looking at the third paragraph of this story, November 21, 2007. It says here, "For several months, a Federal grand jury, Justice Department prosecutors, the FBI, and the HUD Inspector General's Office have been exploring"—and they refer to you—"Mr. Jackson's role in contracting decisions at the Housing Department."

I want to say two things about that. No. 1 is that even when there are allegations of that type, I think it would have been better for you to at least address that in your statement somehow, to inspire some confidence that even though these are ongoing investigations, that you take them very seriously and that you are going to try to deal with them and manage the Department in that context. But I am not going to ask you about that because my job here—I am not a prosecutor. I am not an investigator. I am a United States Senator who was elected by the people of Pennsylvania. I am an elected official. You are a public official appointed by another elected official. We have obligations every day to earn the public trust, and I mean that, every day. That is what I have to do, and that is what you have to do. And that is why not just because of my obligation as a Senator but my obligation as a public official who is very concerned about what is happening in Philadelphia right now. And we pick up the Washington Post today, on page A3, and it reads, "HUD E–Mails Refer to Retaliation." I think you know what we are talking about here.

I wanted to ask you specifically about those e-mails, in particular, e-mails that were sent between two Assistant Secretaries, Mr. Cabrera and Ms. Kendrick, both Assistant Secretaries, not low-ranking people in HUD. I will refer to three and then ask you about them.

E-mail number 1 dated, dated January 12, 2007 at 4:52 p.m. from Mr. Cabrera to Kim Kendrick. It says, and I quote, "Would you like me to make his life less happy?" That is the first question, the "his" referring to the chairman of the Philadelphia Housing Authority, Mr. Carl Greene. So question No. 1 is, "Would you like me to make his life less happy?" And then there is a following question: "If so, how?"

One minute later, Kendrick responds to Cabrera, and I quote, another question: "Take away all of his Federal dollars?"

Then Cabrera responds to Kendrick at 5:04 p.m., some 11 minutes later. Mr. Cabrera says, "Let me look into that possibility."

Now, I was the Auditor General of Pennsylvania for 8 years. We did a lot of audits and investigations, and we were very, very tough on public officials and public agencies. I have never seen anything like that, at least at the level of State government, and I know how hard it is to run a department. You have got to balance budgets and all of that. I did that. But I want to know a couple of things about this.

I want to know, first of all, when you were made aware of the content of these e-mails.

Secretary JACKSON. Senator, the PHA has now sued HUD regarding the accessibility obligations. The judge hearing this case has requested that the parties not attempt to try this case in the media. Since that time, despite the publication of additional stories in the media, we have complied with the judge's request. We regret that the PHA appears prepared to invoke legislative assistance, as well as the media, rather than simply pursuing the litigation that it has begun, or better yet, simply reach an agreement with HUD to meet the accessibility obligations. I will simply say that through the process, HUD's objective has always been to ensure that the PHA complied with the obligation to provide accessible units for persons with disabilities.

And I would just say, Senator, I understand your concern, but I really would like to honor the request of the judge not to discuss this in the media or the press.

Senator CASEY. Well, Mr. Secretary, this is not a question that is coming from a reporter. This is a question coming from a United States Senator on the Banking Committee. I am not a member of the media. I have an obligation to ask questions like this, and I think it is incumbent upon you to answer a question like this not just in front of this Committee, but in the context of the people that you are supposed to serve and I am supposed to serve, some 84,000 clients, people who depend upon the housing programs that we have for the country—in Philadelphia in this case, 84,000.

So I would ask you again: When did you become aware of the exchange of this e-mail?

Secretary JACKSON. I will say again, Senator, I truly respect your question, but at the——

Senator CASEY. Are you telling me you are not going to—I know you read a statement from——

Secretary JACKSON. At the request of the judge——

Senator CASEY. A statement that the lawyers give you to read, but are you telling me you are not going to answer this question?

Secretary JACKSON. I am saying to you that at the request of the judge and at the request of our General Counsel——

Senator CASEY. You are not going to answer the question.

Secretary JACKSON [continuing]. I am not going to——

Senator CASEY. Let me move on. I am almost out of time—in fact, over time. Let me ask you a second question. Once you became aware of this—you are obviously aware of it. Everyone is now. Once you became aware of this, did you take any action with regard to these two employees about what the content of this e-mail is about? Did you take any action at all? Or did anyone in the Department take action with regard to these e-mails?

Secretary JACKSON. Senator, I just do not feel at ease discussing this based on what the judge has asked us and——

Senator CASEY. It is not a question of being at ease. It is a question of whether you are going to answer the question or not. And I think you are telling me—are you telling me you are not going to answer this question either?

Secretary JACKSON. Senator, I just don't believe that I am in a position to answer that question.

Senator CASEY. Well, I cannot compel you to answer the question sitting here today. But I will say this, and I am out of time, and I will try to come back. But let's assume that none of these allegations in these investigations are happening. Let's assume they never happened or they are all resolved and there is no problem here. Let's assume these never commenced at all. Let's assume that all of these things that you talked about today are not only funded at the level they should be funded but are working well. Let's assume all that. Let's assume that the Department is running perfectly.

Despite all of that, it is this kind of stuff that undermines public confidence in public officials, and you cannot allow this to happen. You have to tear this out by the roots when it happens. And I would hope—I would hope—that someone in your position would take decisive action. In fact, I would hope that even before it happened, you would have policies in place and a culture in an agency like this which would be so strong against something like this that these employees would never even dream of putting this kind of information in an e-mail or threaten to threaten another player in the world of public housing with retaliation based upon—and using funding to use that retaliation. And I want to know more also about the Code of Conduct at HUD, who is in charge of it, whether it is being enforced. But I am minutes over my time.

Thank you.

Senator REED. Thank you, Senator Casey.

Senator Allard.

Senator ALLARD. Thank you, Mr. Chairman.

I compliment you for paying attention to the judge. I think the thing that needs to be pointed out is that to answer a question related to a subject he asked you not to talk about can hold you in contempt of court. And I am not an attorney, but I certainly—if I was in your position, I would certainly respect that. And I think the Senator from Pennsylvania knows that. And so, you know, you are in a tough position when you have to answer a question like that, and I think your priorities are in the right place.

Secretary JACKSON. Thank you.

Senator ALLARD. I do have a question for you, Mr. Secretary. In your February 11, 2008, letter to Chairmen Frank and Dodd regarding our Committees' respective FHA bills, you stated the following, and I quote: "HUD strongly supports the provision in Senate bill 2338 expressly prohibiting downpayment assistance from the seller or from any other person or entity that financially benefits from the transaction."

Is this still your position?

Secretary JACKSON. It is still our position.

Senator ALLARD. OK. One other question. You also stated, "HUD supports the provisions of Senate bill 2338 that authorize a permanent increase in FHA loan limits from $364,790 to $417,000, or 100 percent of the Federal Home Loan Mortgage Corporation conforming loan limit in high-cost areas and from $200,160 to $271,050 in lower-cost areas. And then you go on to say, "HUD does not support the provisions of H.R. 1852 that authorize FHA to permanently guarantee loans greater than the conforming loan limit because FHA's single family program should remain targeted to traditionally underserved homebuyers."

Is this still your position?

Secretary JACKSON. Yes, it is, Senator.

Senator ALLARD. Thank you. Mr. Secretary, as you know, I am a strong proponent of the PART program. I have warned you frequently that I will have some questions for you, likely, on PART. And I am certainly pleased with, you know, how you have progressed along, and I think that, you know, dollars into a program is not everything. I mean, there are Members on this Committee and in the Congress and in the administration that brag about the dollars. But to me, it is more than just dollars. It is whether that program is effective or not. And if it is not an effective program, you can put all the money in the world in it, and nothing is going to happen.

And so I encourage you to clearly incorporate the PART assessment into your budget materials, and I have a booklet here put out by the Transportation Committee, Mary Peters, Cabinet member there, your colleague on the Cabinet. And she has actually put right at the very front of the book, "Policy Performance and Program Outlook." And she has explained what each one of the ratings means, and that page here where she is taking each one of the agencies under control, and then also, you know, makes some suggestions on how they manage those results. And I noticed in yours that you had not put that in your budget, and I want to strongly suggest that you go ahead and do that. I think it helps you in your presentation, puts it right out front. I think it reflects in a positive way on your agency.

Unfortunately, there are a number of programs that you have to deal with that still receive ineffective or results not demonstrated, and I think we just need to put them out there in the public and make them readily available to policymakers so that—you know, you cannot do this by yourself, and I think everybody on this Committee is interested in seeing results to the programs, you know, particularly if they are their favorite ones and ones that they support.

So my question to you: How current are the PART ratings? For example, I would note that the ineffective rating assigned to the HOPE VI program came from an assessment conducted 5 years ago. As you just noted, though, the Department has ongoing efforts to improve programs, especially the sub-par programs. What is the schedule to update the assessments? If you would answer the first two questions, I would appreciate it.

Secretary JACKSON. We are continually assessing the PART program. To give you an example—you just used the HOPE program. Of the 270 grants that we have given out in the HOPE VI program, only 75 have been completed in the last 12 to 14 years. We are still looking at $1.4 billion outstanding, and clearly, one of the reasons that I have said that I really do not think HOPE VI should be funded at the level it has been is because of the outstanding money.

What I would like to do—and I have discussed this with both sides of the aisle, both the House and the Senate, and I will get John Cox—is that let us recapture some of that money that is 5, 8, 9 years old and reallocate it.

Senator Menendez said something that I thought was important. He has had a number of great HOPE VIs. So has Philadelphia. I think that where people have performed on it, we should recapture the money, give them the opportunity to do much better, and I still feel the same way. But we consistently make assessment.

And the last thing I would say, Senator, is this: For almost 18 years, we were on the high-risk list. This is the first time that HUD has been off the high-risk list, because we are doing—and I do not take full responsibility because I have my colleague, my friend and my colleague, Senator Martinez, who started this process. So I think we are running the agency more efficient, more effective, and we are addressing many of the issues.

When we walked in there, as the Senator can tell you, we had 400 different computer systems. Today we have about 109. So we have cut down tremendously, and we are consistently evaluating how we can best manage the program.

John.

Mr. COX. Thank you, Mr. Secretary.

Senator, just a quick answer to your question specifically for 2008, our Housing for Persons with Disabilities, our Housing for the Elderly, our Housing for Persons with AIDS, and our RAS Program, which is the Resident Assistance Program, are all scheduled to be PART'd. Three of those four are in the category of results not demonstrated. So we continue to work on PART-ing those programs.

Senator ALLARD. Well, it is good to have that information.

The next question I have, and I want to take a little extra time here because Senator Casey did, but I will not take a lot. I will not abuse the privilege. I just have one question here. Do you believe all the programs should be reassessed on the same schedule, or should deficient or key programs be evaluated more frequently?

Secretary JACKSON. I really think that we should have a continuum system where we go as we are using now, where we evaluate certain programs. This year, as John has said, we will evaluate those, and next year we will evaluate others. And we have tried to do that since we have been here at the minimum every 3 years. We have not been totally successful, but I would say that we are probably 80, 85 percent successful.

Senator ALLARD. Yes, and I notice here on the Department of Transportation, some of them have been to 2002, so it has been longer than they have. I mean, the fact is that you are doing it, and that is the important first step, and then I think later on perhaps we can require—and people get more comfortable with it, we can perhaps maybe push for more frequency in most cases. But the fact that you are doing it is very appreciated, at least from this Senator.

Secretary JACKSON. I will tell you, Senator, that I did it when I was running the utility company, and as you know, I am probably in a very unique position because I am the only HUD Secretary that has ever run a housing authority, and I ran three of them. And I did it while I ran housing authorities. In fact, Senator Casey, I am the first person who had Carl Greene to be my information technology person when I was in Washington, D.C. And so I have a great relationship with him, at least I hope so.

Senator ALLARD. Mr. Chairman, thank you for your patience, and sorry I ran over a little bit. Thank you.

Senator REED. That is quite all right.

Mr. Secretary, you do not want to litigate this case in the press, and you just did a little litigation there. You have got to be consistent, at least.

One comment before I recognize Senator Menendez. One of the major responsibilities of the Secretary is to be able to respond accurately and completely to the U.S. Senate.

Secretary JACKSON. Yes, sir.

Senator REED. And to the extent you cannot do that, I think you have to seriously ask how effective you can be in your role.

Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman.

Secretary Jackson, first, just so you know, my name is Menendez.

Secretary JACKSON. Menendez.

Senator MENENDEZ. Second, I appreciate your response to the question in the letter, and we look forward to the answer.

Third, I have to say I had no intention of speaking on Senator Casey's points, but if a Member of the U.S. Senate in an official hearing cannot get an answer from a Secretary on a critical issue such as Senator Casey has raised, there is a difference between a judge saying do not play it out in the press—that is about issuing press releases and fighting it out there. But at an official hearing of the U.S. Senate, if a Senator cannot expect that a member of the President's Cabinet, regardless of whose President that is, is not going to be responsive because they want to hide under the guise of something that is not a legal impediment, then we have a serious problem, because we have a fiduciary responsibility to the people who we represent, and we cannot pursue that responsibility if we cannot get answers. So I think Senator Casey has every right in the world to get an answer, and I do not see anything that, Mr. Secretary, you said that impedes it. There is a difference about having press releases and news conferences and fighting it out in the press. That is different than answering a Member of the U.S. Senate. And I would hope you would reconsider if Senator Casey has a second chance.

Let me go to two specific issues, and I raised it in my opening statement: Project-Based Section 8. In a budget briefing a few weeks ago as well as in staff-level meetings, HUD has now admitted to what we have been saying for some time, that the Section 8 Project-Based Rental Assistance Program is short by $2.8 billion. Now, I am concerned that HUD's solution of signing short-term contracts with owners will lead to the loss of thousands of affordable housing units. In fact, 50 organizations, including investors, lenders, housing finance agencies, local governments, and housing developers have registered similar concerns. They believe that investors and lenders will be unwilling to provide long-term financing for these properties and owners will opt out of the program as soon as possible, putting up to 500,000 affordable housing units at risk.

I know there is one in my home State in Jersey City, a condominium developed right next door, getting fantastic rates, same type of building, next to it is Project-Based Section 8. There is no reason in the world, as these people are not getting paid, that they should ultimately not pursue a market-based approach, and we will lose all of those people's ability to find a place to call home.

So the administration's request of $400 million in advance appropriations, according to the HUD staff, will only cover an additional month or so of funding, will not allow HUD to sign long-term contracts. The Chairman and a group of us have sent—23 of us, as a matter of fact, to the Budget Committee, of which I am a member, requesting $2.8 billion, and we have that in the budget that we are debating on the floor.

Wouldn't that help ensure that these 1.3 million units continue to remain affordable?

Secretary JACKSON. You are absolutely correct, and we have assured the owners of those properties that they will be covered all the way into 2009. And we agree with you, Senator, that that has been a problem, that we have been short-funded. But we are correcting that problem, and we are working with both the Senate and the House to make sure that that is done.

Senator MENENDEZ. Let me ask you this: Owners in the project-based program have gone through periods where payments from HUD were late. Last summer, owners went unpaid for up to 3 months.

Secretary JACKSON. And, again, you are correct, and I cannot debate that with you——

Senator MENENDEZ. Without any official notification from HUD. Now, GAO has documented HUD's challenges in making timely payments to owners, and they offer three recommendations: streamlining automatic contract renewal process, developing systemic means to better estimate the amounts that should be allocated, go on and on, notifying owners if their payments are going to be late.

It is my understanding these recommendations have not been implemented, and, in fact, when payments were late last year, owners were not told when to expect payments.

Have you implemented the recommendations?

Secretary JACKSON. Senator, that is not true. The owners knew when the payments—and, second, we are implementing those.

Senator MENENDEZ. You are implementing. You have not implemented them.

Secretary JACKSON. We have implemented it to the point that the owners know now that they are going to be paid all the way into 2009.

Senator MENENDEZ. Can you send me in writing how you have implemented the three recommendations of the GAO?

Secretary JACKSON. I will.

Senator MENENDEZ. In the Fiscal Year 2008 Consolidated Appropriations Act, Section 235 of the HUD bill requires the Department within 60 days of enactment to submit various things, complete and accurate accounting of the actual project-based renewal costs for 2007 and 2008, revised estimates of the funding needed to fully fund all 12 months of all project-based contracts under Section 8—it goes on—for those dates, identification of all sources. Have you submitted this report to Congress?

Secretary JACKSON. We have submitted it.

Senator MENENDEZ. OK. So we can get a copy of that. I have not seen it yet. If we need a copy, I am sure we can get it from you.

Secretary JACKSON. And if not, we will make sure that—we will send it to you.

Senator MENENDEZ. That would be very helpful.

Finally, Mr. Chairman, if I just may, one last question. You know, I visit with the public housing authorities across my State, and I have to be honest with you. These are exceptional people doing exceptional jobs with enormous challenges. And at 81 percent funding of your public housing operating fund, that just simply—this is the lowest operating proration in history. Now, it is really even lower when the fact that some expenses, such as utilities, cannot be pro rated since agencies have to pay utility companies 100 percent of their bills, and we have seen the rising costs of that on both electricity as well as heating. This is the equivalent of saying that some housing authorities have got to shut down 19 percent of your operations.

I mean, how is it that we continue to take this view that you have a streamlined operating process because HUD has worked very hard at getting these entities, some of them have the highest ratings that you give. And yet you take—and you say, you know what? Nineteen percent of your operating capacity, we are just not going to fund it. How do you expect these people to make ends meet?

Secretary JACKSON. Senator, I truly believe that at the funding level that we are operating at, that many have reserves. They can make the ends meet. As I said a few minutes ago, I think that the—I cannot remember distinctly, but the last housing authority that I ran was in Dallas, Texas, and I think at that point in time we were 86 or 88 percent of our budget. And I realized that I has to look at this from a position where asset management—many of these housing authorities have units that they want to be paid on that are not being used. And I will say this about the person that I had an opportunity to talk with, Mayor Booker and his housing authority director. I think the person that they have hired in Newark is doing, in my mind, a very phenomenal job. And I think he is using his reserves well. He is using many other aspects of his budget well.

Senator MENENDEZ. Well, Mr. Secretary, he would be—and I will stop, Mr. Chairman. He would be the first one. I say to you, hey, I am doing everything I can——

Secretary JACKSON. And you are absolutely——

Senator MENENDEZ [continuing]. I am using all my assets, I am doing asset management, but you keep chopping 19, 20 percent off of me, and I have only got so many assets to move around at the end of the day. As a matter of fact, here is the history. Here is the decline. And you talk about using money in reserves. Those reserves are getting depleted.

So we need to revisit this, but I will not prolong it, Mr. Chairman. I appreciate the Chair's courtesy.

Senator REED. Thank you, Senator Menendez.

As you have noticed, Senator Martinez, we have been somewhat lenient on the time, and that lenience will also be extended to you. Senator Martinez.

Senator MARTINEZ. Thank you, Senator Reed. Thank you very much.

Well, let me begin, because I really am loath to delve into some of these issues, but I cannot help but sit here and reminisce about the day that I first met Alphonso Jackson. I was looking for good people to help me run the Department of Housing and Urban Development. I had been appointed by the President. We were in the midst of a transition. When you get to a place where there are 10,000 employees, a budget of $30 billion, and the resources of a transition require you to move immediately to try to find good people, I remember meeting Alphonso Jackson and having had experience in running a couple of housing authorities, was not looking for a job in the Government, was, in fact, not interested, and—but I heard he was a good man, and I heard that he had a lot of experience. And I felt it was important to bring someone into the Department to be my Deputy Secretary who had actually hands-on experience.

He not only had experience in public housing, but he also had private sector experience, and he was good enough to accept my offer to him. He left a lucrative, well-paying job in the private sector to come and serve our Nation and serve the public.

And while I know that all of us humans have frailties and none of us are perfect, and from time to time mistakes can be made, I know Alphonso Jackson to be an honest man. I also know him to be a good man, I know a caring man, and I think a person that is diligently trying to manage a Department of Government that has a history of being very difficult to manage, with many demands and not always all of the resources available.

With all of that, I also believe that it is important when someone sits in that chair to be very mindful not only of responding to Congress and responding to questions that might come from Congress, but also to be very mindful to respond and answer and the dictates of your General Counsel because that is one way you can avoid getting in trouble.

And so Secretary Jackson is in an untenable position here where he is being told by his General Counsel that he should not answer these questions because there is a judge's order suggesting that this ought to not be discussed outside the courtroom. I do not think the judge's orders typically, in my experience as an attorney, talk about whether you can hold a press conference or not, but talk about whether matters should be kept within the confines of the judicial proceeding. And so, on the other hand, he has an obligation to answer questions from a Senator.

So what is a man to do? He cannot satisfy both bosses. He cannot follow the dictates and the suggestions of his General Counsel, nor can he answer the question from a Senator. And those are the kinds of situations that those of us who choose to serve the public interest and serve the public in Government sometimes find ourselves in. And, Mr. Secretary, I am sorry you are in this position, and I wish you the best. And I know you are good man, and I know you are trying hard to do a difficult job.

Let me talk to you about some of the issues relating to HUD and how we are going to help the American people through this housing crisis. It is not going to be about discussing one piece of litigation of the many pieces of litigation that HUD may face, but also to talk about the issues that face the American people today.

When we talk about the FHA modernization bill that I am very committed to—and I am so delighted that the Chairman is also so committed to seeing this become a reality—I want to continue to work with HUD to hear what will help you in this instance. You mentioned that seller-provided downpayment assistance has had a foreclosure rate of 25 percent. Now, the typical foreclosure rate on FHA lending is approximately what? Three percent?

Secretary JACKSON. About 3 percent.

Senator MARTINEZ. Mr. Montgomery, Housing Commissioner?

Mr. MONTGOMERY. Thank you, sir. Our actual foreclosure rate right now is 2.16 percent.

Senator MARTINEZ. So instead of 2.16 percent, these types of loans have a 25-percent foreclosures rate.

Mr. MONTGOMERY. Slight correction. They have a cumulative claim rate of 25 percent over the life of their loans.

Senator MARTINEZ. So the point is——

Mr. MONTGOMERY. They are 2½ times more likely to fail than loans that do not have that type of——

Senator MARTINEZ. So 2 ½ times, which for a firm like the FHA, which is actuarially to be kept sound, you charge a premium, you cannot really put on the backs of the regulate premium payer the kinds of risks that these types of loans are bringing about to HUD.

Mr. MONTGOMERY. That is correct.

Senator MARTINEZ. So it would be helpful, you think, in an FHA modernization if we eliminated from the FHA lending these types of downpayment-assisted—seller-downpayment-assisted type loans.

Mr. MONTGOMERY. Absolutely, and that is why I appreciate the courage of this Committee to take this issue head on, and it has included language to that effect in the bill they passed in December.

Senator MARTINEZ. The other issue I would ask on the FHA bill, on the FHA issue, is about downpayments and whether we should have a small downpayment contribution in FHA lending, and what is your position or HUD's position on that?

Mr. MONTGOMERY. We currently support the provisions in the Senate bill that have the 1.5 percent minimum cash investment. The current is 3 percent. And we feel, given what has been going on in the market—this is a departure from the bill in 2006, by the way, that borrowers should have some skin in the game, so to speak, and have a cash investment.

Secretary JACKSON. And we truly believe that because it was raised by an issue with Senator Bond, and we assured him that we would do everything in our power to make sure that a person made a cash investment in this process.

Senator MARTINEZ. On the FHA, is there anything else, Commissioner Montgomery, that you would like to——

Mr. MONTGOMERY. That is it, sir.

Senator MARTINEZ. OK. I was going to say, I think overall it sounds to me like the Senate bill is more in keeping with what you believe you need in order to have the FHA play a significant role in the current mortgage crisis that our country is facing.

Mr. MONTGOMERY. Yes, and I just would want to add something to what the Secretary said earlier on the loan limits. We are obviously very mindful that the stimulus package raised those. Certainly today we feel the 417 is a good number. But we have to say given what the stimulus does, we will continue to consult with Members of this Committee to see what that number is.

Senator MARTINEZ. And it is too soon to see any experience with it?

Mr. MONTGOMERY. It is probably too soon. Let me point out there are 3,300 counties in the country; 75 of them are at the highest limit; 600 are somewhere between $271,000 and $729,000; 2,500 counties are at the 271. So the vast majority of America is capped at $271,000. But as I have said before—I am a Texan, but I have been trying to look out for the State of California in that I think they need to have the opportunity to use the Nation's flagship homebuying program. So I just want to continue——

Senator MARTINEZ. So if you do not have a higher loan limit, you are really leaving out certain marketplaces from participating in FHA housing.

Secretary JACKSON. Actually, yes. If we look from Utah all the way back to the West Coast, we are going to leave out quite a bit. And if we look at Virginia all the way back to Maine and New Hampshire, we are going to leave out quite a number of people.

Senator MARTINEZ. But with that geography, you are forgetting Miami, also a high-cost area.

Secretary JACKSON. Miami.

[Laughter.]

Senator MARTINEZ. Mr. Secretary, I want to commend you for tackling the issue of RESPA reform. You know how much I bled over this issue while I was at HUD, and I appreciate the fact that you have continued to struggle with that, because as we look at the—and I know, I am mindful of my time, Mr. Chairman. We really have an issue when it comes to the mortgage problem relating to how people get into the mortgages in the first place. And I think part of it is the information, part of it is the amount of paperwork, part of it is the fees they get charged, not always clearly delineated.

Secretary JACKSON. That is correct

Senator MARTINEZ. And I commend you for that, and I wanted to ask you where you are on a rule, on a RESPA rule, and what you anticipate coming that——

Secretary JACKSON. The rule is coming out I think very soon, and comments—when are we having it by? Is it coming out?

Immediately it is going to be out.

Senator MARTINEZ. The rule will be out immediately?

Secretary JACKSON. The proposed rule.

Senator MARTINEZ. The proposed rule. For comment?

Secretary JACKSON. Yes.

Senator MARTINEZ. Very good. Well, I commend you and congratulate you for that. I know it is a major achievement, and it was a promise you made me when I left, actually, that you would see through RESPA reform. So I thank you for persevering on something that I know is very, very difficult and very controversial and contentious.

Secretary JACKSON. Thank you.

Senator MARTINEZ. Thank you, Senator Menendez.

Senator MENENDEZ [presiding]. Thank you, Senator Martinez.

Senator MARTINEZ. Senator, I should tell you that I tried to teach Secretary Jackson a lot, but pronouncing Spanish was not one of them.

Senator MENENDEZ. And if I did not say anything, he would not know, so I——

Senator MARTINEZ. He called me "MAR-ti-nez" a time or two.

Secretary JACKSON. I appreciate that.

Senator MENENDEZ. If he called me Martinez, I would get better answers.

[Laughter.]

Secretary JACKSON. I am not sure.

Senator MENENDEZ. Let me just tell the Committee, I know that Secretary Jackson has told Chairman Dodd that he has to leave by 11:45. I still think we will accommodate everybody. There is plenty of time. But I just want everybody to know. And before I turn to Senator Carper, Mr. Secretary, I assume that court order that you referred to with reference to Senator Casey is a public court order, is it not? That court order is not public?

Secretary JACKSON. I have to ask—I know that——

Senator MENENDEZ. Well, I assume if the judge said—if you are telling us that the order is that you cannot speak or have the public—that the order somehow is not public to tell you——

Secretary JACKSON. This is our General Counsel, Rob Couch.

Mr. COUCH. No, sir, it is not an order—an issued written order. It was the request by the judge in the case. The case is——

Senator MENENDEZ. It was an oral request?

Mr. COUCH. Yes, sir.

Senator MENENDEZ. In open court?

Mr. COUCH. I cannot answer that, sir. I was not there.

Senator MENENDEZ. If you would look at it, if it is an oral request in open court, would you get a copy of the transcript to the Committee of that?

Mr. COUCH. Yes, sir.

Senator MENENDEZ. So we can see what the language of that was all about.

Mr. COUCH. Yes.

Senator MENENDEZ. Senator Carper.

Senator CARPER. Before Senator Martinez leaves the room, I just want to ask, having sat in this seat you now hold and in the seat where Secretary Jackson is sitting, which seat do you prefer?

Senator MARTINEZ. Sir, this seat over here is much more comfortable.

[Laughter.]

I remember the first time I sat here, I thought it was a whole lot easier to ask the questions than it is to answer them.

Senator CARPER. Thank you for your candor.

One of the things that Senator Martinez and I have been working on, along with others on the Committee, the Chairman and Senator Reed and Senator Bennett, is the matter of trying to make sure we have got a strong, independent regulator for Government-sponsored enterprises—Fannie Mae, Freddie Mac, and the home loan banks.

When Secretary Paulson sat before us 3 weeks ago, in the seat that you now hold, I asked him to tell us what his priorities and maybe the priorities of the administration might be as we attempt to craft a housing recovery package, a legislative housing recovery package. What would be your priorities? In the package that we have been putting together—well, I will just hold off saying what are the proposals that our leadership put together. We have not had a chance yet to debate them fully on the floor, but my hope is that we will soon.

But Secretary Paulson said three priorities: No. 1, we need a strong, independent regulator for our GSEs, for Fannie Mae, Freddie Mac, and our Federal home loan banks; No. 2, we need to take FHA and bring it into the 21st century, modernize it, make it relevant for today's needs and marketplace; and, No. 3, he said he would like to see the housing authorities for our State and local governments be able to issue tax-exempt revenue bonds, not just for first-time homebuyers, not just for multi-family rental housing, but also to be of help with respect to refinancing homes and homes that are in foreclosure or threatening to go to foreclosure. Those are what his top three priorities would be.

Let me just ask of you the same question. What would be your top priorities as we take up—and I think when we come back from our recess later this month, one of the first items that we will take up in the Senate will be a housing recovery package. And it would be nice to have the input of the administration, and we are already getting that from our Republican and Democratic colleagues as well.

Secretary JACKSON. Thank you, Senator. The first thing I would say is to have the Senate and the House reconcile the FHA modernization legislation. That is critical to what Senator Martinez just said. I think we will be able to reach markets today we cannot reach, and I think that is very critical.

Second——

Senator CARPER. Let me just ask, there has been, as you probably know, some negotiations that have been going on behind the scenes involving our Chairman and Ranking Member, along with the Chairman and Ranking Member from the House sister committee over there. Has HUD been a part of those discussions? And if so, where do you see the sticking point? I am told there is maybe one sticking point. Where do you see that sticking point?

Secretary JACKSON. We have not been, and yesterday at the hearing with Chairman Frank, he said that they were pretty close to resolving the situation, he and Chairman Dodd. So I will—that is all I know about that.

Senator CARPER. Well, knowing how high a priority this is for HUD, for you, you may want to invite yourself into a conversation with some of those principals and see what kind of encouragement of guidance or counsel you can impart to them.

Secretary JACKSON. Thanks.

Senator CARPER. I would urge you to do that.

Secretary JACKSON. OK. And the second one I would say is RESPA reform, because I think that it should be transparent. What people do, when they enter into a contract as to what they are going to pay for a home, it should not change drastically from what the initial cost was. I think that is very important.

And, last, I agree with my colleague Secretary Paulson. The only difference is it is not only housing authorities issue bonds. I would like to see the counties and cities issue bonds based on their creditworthiness to help people buy homes. And we have said that before.

I think it is very important. We are facing a major crisis. I think we can do so much, and then we have to look to the private sector, and that is why we created the Hope Now Alliance, is to try to address that issue.

I want to say this, though, because this is very important to understand, that 80 percent of the subprime loans in this country are going to be OK. But we are looking at 20 percent, which is about 2.1 million. And I think we can address this if we all work together. I have been in different cities, Mr. Chairman, in Newark, where I have seen blocks of homes which I detest. And I think that between the two Senators and Mayor Booker, I think we have an opportunity to bring Newark back. And I want to do everything in my power to help them do it.

Senator CARPER. Give us some advice on GSE regulatory reform, please.

Secretary JACKSON. I think we must have a strong regulator, and it is clear that they want the regulator to be independent, not out of HUD, not out of any other agency, but similar in many ways to the Federal Reserve. And I have no objections to that at all.

Senator CARPER. Beyond that, what advice would you have for us?

Secretary JACKSON. I wish I could answer some of the questions that were asked of me this morning.

Senator CARPER. OK. How are we doing with respect to Hope Now? And how——

Secretary JACKSON. We are doing very well, but between Secretary Paulson and I, we have had to, in essence, use a lot more moral courage to entice people to do what they should be doing. It is one thing to say what you are going to do. It is another thing to do it. And we are consistently pushing, pushing, to make sure that they carry out their responsibility.

Senator CARPER. One of the elements that is in the housing recovery package that our leadership attempted to bring to the floor earlier this month was some additional money for housing counselors and some additional money for CDBG. Would you just comment on both of those elements?

Secretary JACKSON. Let me say that housing counseling is so important. Ninety-six percent of the people that receive counseling did not go into foreclosure. We have increased housing counseling from $10 million in 2001 to the 2009 budget of about $65 million. We have also funded NeighborWorks at $180 million. We are seeing the results.

Let me tell you, I was in Cleveland and Detroit, and I was just in Santa Ana, California, last week, where more than 1,000 people who were facing foreclosure came in, and each case we were able to save 80, 85 percent of those people, only because their housing counselors were looking at everything. We are asking banks to renegotiate, refinance. We are asking banks to cut the amount of the loan because a lot of the homes now are underwater, and when we say underwater, Senator, that means they are—with the mortgage note that they have, it is not worth that much. And so we are working with them.

The same thing in Cleveland. When I was in Cleveland and Detroit, we had more than 600 people there, and we helped more than 85 percent of those people stay in their homes.

Senator CARPER. Let me interrupt you. I think the dollar amount that was put in our housing recovery package for additional counselors was, I think, $200 million, in addition to the $180 million that you have mentioned. And I would like to know if some additional funds could be helpful.

Secretary JACKSON. I think that we are doing very well, and I think that whatever the Senate makes—the House and Senate makes a decision, we will use the money judiciously. I mean, I think that now we have 2,300 counseling centers where when we came in, we had about 500 all around the country. And NeighborWorks is all around the country at this point in time.

I think that we see the importance of this crisis that we are facing, and it is important, in my mind, to help people stay in their homes. And we are not talking about wealthy people. We are talking about policemen, nurses, teachers, fire people. I mean, these are regular people who have invested every penny they have into their homes. And I think it is cynical to let them lose their homes. I had one person when we were in Cleveland that had been in a home for about 15 years and was losing it.

Senator CARPER. Let me just conclude by saying this: Our Leader, the Majority Leader, Senator Reid, said yesterday that when we return to session following the 2-week recess, one of the first items that we are going to take up is a housing recovery package. It will include some of the elements that both you and Secretary Paulson seem to embrace. It will include a number of proposals that we embrace. I would urge you to be an active participant in working with both the Senate and the House and the relevant Committees and leaders of the Committees to help fashion that package to make sure that it meets the needs that you think are there.

Secretary JACKSON. I will only say to you, Senator Carper, that I believe if we pass FHA modernization, we will address that issue head on. We will be able to help a lot more people.

Senator CARPER. All right. Thanks very much.

Senator MENENDEZ. Senator Schumer.

Senator SCHUMER. Thank you, Mr. Chairman, and thank you, Mr. Secretary. First, I want to thank you for the good work. Your office and you personally have worked closely with my office on saving a whole lot of affordable housing in New York: Castleton Park in Staten Island, a recent example; Starrett City, where we are moving along. I know that HUD has gone along with the plan that everybody has put together. We still have to get OMB to go along, but your commitment has been great.

Secretary JACKSON. Thank you.

Senator SCHUMER. You have put your money where your mouth is in terms of affordable housing and saving housing in New York, and we very much appreciate that.

I would like to discuss briefly with you the way that HUD handles the disposition of properties that it controls. I wrote you last month urging you to re-examine HUD's policies of allowing contractors to sell homes to speculators and absentee landlords. After only 15 days, these landlords, the speculators, they buy these homes—we have this problem in Buffalo and in Rochester and in Syracuse and in many of our upstate cities. There is a large number of vacant homes, and what happens is, yes, for the first 5 days, somebody can buy it at a discount, then for 10 more days, a policeman, a fireman, somebody can buy it, and then after 15 days—only 15 days after it goes on the rolls—anyone can buy it for just about any price, and it almost always ends up being speculators who are just holding it in hopes that they can flip it and make a couple hundred dollars.

Now, in your response letter—I just received this yesterday—you make no mention of this policy, let alone—even though we wrote you about this, let alone a decision to re-examine it. The letter goes through what else you are doing, and that is great. But you recognize the success of the asset control area program in redeveloping properties in Buffalo and Rochester—in Rochester. Note that Buffalo has an application.

First, can we get some action on changing this policy to give those who will live in the homes a discount for a longer period of time—5 days is too much—and those who are policemen, firemen, and others the same? In other words, I think they should stay on the rolls for that program for, say, 6 months so somebody can buy them. We are finding in parts of Rochester, parts of Buffalo, people do want to buy them. But quickly they are sold and the speculators come in. Would you seriously——

Secretary JACKSON. I would be happy to look into that because I am in agreement with you. I think that they should be owner-occupied, not speculation.

Senator SCHUMER. The policy you have is a good one. It is just so quick.

Secretary JACKSON. OK.

Senator SCHUMER. So without giving me a certain answer, you will agree, looking at the top of it, it should be a longer period?

Secretary JACKSON. I agree, and I want to say that I will have Commissioner Montgomery talk to you personally. We have been working with him.

Senator SCHUMER. OK. Second, I hope you will seriously consider the asset control area for Buffalo. Rochester, you have done it. It has done a good job. Everyone is getting plaudits on it. Could you please consider that for Buffalo as well?

Secretary JACKSON. Surely.

Senator SCHUMER. Very, very important. OK. Good. Those are two helpful things.

HOPE VI, which you gave a grant to Niagara Falls nearby, is working already and working well. I do not have any complaints about HUD in terms of—well, I always have complaints, but I think HUD has done a good job overall in focusing on some of the toughest parts of my State in terms of housing and in terms of upstate New York.

Second, I want to just follow up briefly on Senator Carper's question. Would the administration—I know you do not support the whole package that we have offered, and we are willing to work with Senator McConnell and other Republicans to come up with some kind of compromise, and Senator Carper has been a leader on that. Actually, so have Senator Casey and Senator Menendez, sitting here with me. Would you consider at least supporting the $200 million—you know, the $180 million that we allocated, that you and Secretary Paulson agreed was a good idea, was an amendment originally offered by myself, Senator Casey, and Senator Brown; 130 or 140 of that has been used up already. It is working, you are right.

Secretary JACKSON. That is correct.

Senator SCHUMER. Would you consider supporting an additional $200 million? As you have said, the statistic I had never heard, but it is astounding if it is true: 96 percent of those who have counseling do not go into foreclosure.

Secretary JACKSON. That is correct.

Senator SCHUMER. So wouldn't that be logical that now that this 180 is almost used up that the administration support an additional allocation? I wanted 500—we wanted $500 million. We put in the bill $200 million to help win you guys over.

Secretary JACKSON. May I get back to you on that?

Senator SCHUMER. Yes. Thank you. Would you? I hope you will privately recommend that.

Secretary JACKSON. OK.

Senator SCHUMER. My time has expired, and I very much appreciate your time, Mr. Chairman.

Secretary JACKSON. Chairman, may I address an issue that you and Chairman Dodd addressed? I got a notice back that the project-based Section 8 letter that Chairman Dodd referred to from September 2007 was responded to you all on December 8, 2007. And I will make sure you get a copy of the letter.

Senator MENENDEZ. That was a letter that Senator Dodd—that was the second letter that he referred to.

Secretary JACKSON. OK.

Senator MENENDEZ. The letter on LEP that I was referring to, I do not have an answer.

Secretary JACKSON. OK. Then I will get it for you.

Senator MENENDEZ. But I am sure that his staff is here and will——

Secretary JACKSON. And, again, accept my apology.

Senator MENENDEZ. I appreciate that, and as long as we get an answer. I know for 1 minute Senator Casey has a personal request, Mr. Secretary, and I will acknowledge him for that purpose.

Senator CASEY. Thank you, Mr. Chairman. I know we are out of time. Two things. One is I will be sending a set of questions to you, Mr. Secretary, to respond to for the record. And we are out of time to pursue this further today, but I would just say to my colleague from Colorado, Senator Allard, that I think it would be helpful in a setting like this that you do not make public statements about what I know or do not know. You said, "Senator Casey knows what the judge's order says." We do not have that on the record here. What I do know is that the Washington Post refers to a press statement from HUD where they say, and I quote, "The judge presiding in the lawsuit has asked the parties not to speak to the news media." That is the only public written version of what the judge may have said or not said. I just ask the Senator from Colorado to speak to things that he knows, not what he presumes others to know.

Senator ALLARD. Mr. Chairman, if I can respond, my intent was not to question your knowledge as far as the subject matter. I meant to refer to you as a very competent attorney, and so I thought—I am not an attorney. I thought as a very competent attorney you understood the importance of a court order, and so I just made that point. And it was not directed at you personally. I just was—in a way, I was trying to compliment you.

Senator CASEY. Well, I appreciate that. I think it is important, though, in light of what Senator Menendez said earlier, that we have on the record the testimony—or the transcript, I should say, from the judge to complete the record.

Thank you very much.

Senator MENENDEZ. Thank you. Thank you, Mr. Secretary.

Secretary JACKSON. Thank you.

Senator MENENDEZ. We look forward to some of your answers to the questions.

Secretary JACKSON. Thank you.

Senator MENENDEZ. With that, let me welcome the next panel, and we thank them for their forbearing. Mr. Michael Kelly, the Executive Director of the District of Columbia Housing Authority, and the President of the Council of Large Public Housing Agencies; Mr. Hector Pinero, Senior Vice President of the Related Management Company, representing the National Multi Housing Council and the National Leased Housing Association; Ms. Diane Randall, who is the President of the Connecticut Partnership for Strong Communities—and if you would come up as we are introducing you. Ms. Randall served as the first Executive Director of the Connecticut AIDS Residence Coalition and is a member of the Connecticut Housing Finance Authority Board of Directors.

Mr. Edgar Olsen, who is a professor in the Department of Economics at the University of Virginia. And if we could have—those who want to engage, if you could engage outside, we would appreciate it.

Mr. Edgar Olsen, as I was saying, professor in the Department of Economics at the University of Virginia, who has conducted research on low-income housing programs for many years and has served as a consultant to HUD in six administrations.

And Ms. Barbara Sard, who is Director of Housing Policy at the Center on Budget and Policy Priorities, and prior to that, she was a senior managing attorney of the Housing Unit in the Greater Boston Legal Services, where she has worked for more than 19 years.

Let me welcome all of you today. Because of the extended nature of the Secretary's visit with us, and because Senator Dodd had to go to a funeral and has asked me to chair until we get all of your testimony in, but I have to preside at 12:30, so we are going to ask you to try to limit your comments. We will include all of your testimony for the record. In order to engage in some questions that may be had by members who are here and who may come, I am going to ask you to try to summarize in about 4 minutes or so, if you can. And, with that, let me thank you all and recognize Mr. Kelly.

STATEMENT OF MICHAEL KELLY, EXECUTIVE DIRECTOR, DISTRICT OF COLUMBIA HOUSING AUTHORITY AND PRESIDENT, COUNCIL OF LARGE PUBLIC HOUSING AUTHORITIES

Mr. KELLY. Mr. Chairman, Ranking Member, and members of the Committee, my name is Michael Kelly. I am the Executive Director of the District of Columbia Housing Authority here in the Nation's capital. And I am also President of the Council of Large Public Housing Authorities.

Thank you for your invitation to testify today on the fiscal year 2009 budget request by the Department of Housing and Urban Development.

The D.C. Housing Authority owns and manages 8,000 public housing units and we provide vouchers to over 10,000 families. With six awards, the DCHA is the fourth largest recipient of the HOPE VI awards across the country.

CLPHA's 60 members represent most major metropolitan areas of the country, and on any given day CLPHA members serve more than 1 million households. Together, they manage almost half the Nation's multi-billion dollar public housing stock and administer 30 percent of the Section 8 voucher program.

Regrettably, the Administration's proposed budget is a continuation of a now 8 year effort to cripple, dismantle, devalue, and defund public housing. From cruel budget cuts to the evisceration and elimination of programs, this budget, in Congressman John Olver's words, is an "assault on public housing." Allow me to elaborate.

The Administration's proposal of $4.3 billion for the operating fund reflects only 81 percent of need. HUD's own budget justifications indicate that $5.3 billion is needed, $1 billion more than what they are asking. Coupled with underfunding, the transition to HUD's asset management has dramatically increased the administrative burden on housing authorities.

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, we are concerned that the continued funding shortfalls will make the transition to asset management needlessly difficult, 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, given the monumental need for affordable housing in this country, and most certainly here in the Nation's capital.

If I can, Senators, you know more than I the need. But if I can share with you for the record a letter that I received very recently. "Mr. Kelly, my name is Ms. Sota and I am writing to you for help. I have four kids who have motivated me on my journey. I have been working full-time as a dental assistant for 4 years. The only thing that is missing is a safe place for our own."

"My kids and I have been living from house to house for three-and-a-half years. I hate the fact that my kids are asking where housing we are staying over tonight. My kids hate leaving school because they have learned that after school there is no home. I cannot really buy food because I am never at one place for too long."

"I want to give my babies comfort, stability, and security but I need help. Please, Mr. Kelly, help us find a place that is safe to call home."

Again, you know more than I what the need is, Senators, and I want to thank you for your continued efforts in this.

In short, CLPHA and the D.C. Housing Authority recommend funding the operating fund for the industry recommended level of $5.3 billion for fiscal year 2009.

For the 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 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 the D.C. Housing Authority, we have a backlog of modernization needs totaling $150 million. In light of decreased capital funding, the DCHA sought assistance from the private sector and collateralized future capital resources to receive $80 million bond funding. This fund was used to repair and replace major systems. Despite this, we still have 14 developments that require major physical improvements.

With reduced capital funding, our ability to return to the private sector to secure additional funds to treat these sites is greatly restricted. Underfunding the capital fund will cause private lenders to shy away from future investment in public housing neighborhoods.

For these reasons, DCHA and CLPHA recommend funding the capital fund at the industry requested level of $3.5 billion.

Also, last year HUD said it would conduct a national modernization needs study to develop 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. And DCHA and CLPHA urge HUD to complete this study so we can have a more complete understanding of the state of capital needs, including the current number of severely distressed units.

HOPE VI, as was noted earlier, is one of the most significant neighborhood revitalization strategies that we have. At the housing authority, we assume the role of real estate developer and community builder. With our six HOPE VI sites and our revitalization efforts, along with our partners, we have generated over $2 billion in economic development here in the District. We have been able to increase the net number of affordable housing to over 1,500.

In fact, the DCHA was recently named the fourth most active developer in the District of Columbia by the Washington Economic Development Partnership.

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. And as I mentioned earlier, the DCHA has 14 such public housing communities that need these vital revitalization dollars.

Senator MENENDEZ. Mr. Kelly, if I could ask you to summarize for us.

Mr. KELLY. Again, on the Federal voucher side, we expect that vouchers are greatly needed. We support the passage of Senate Bill 2523, the National Affordable Housing Trust Fund Act. It is an important fund for resources to continue development of public housing.

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

I thank you for this opportunity.

Senator MENENDEZ. Thank you.

Mr. Pinero.

STATEMENT OF HECTOR PINERO, SENIOR VICE PRESIDENT, RELATED MANAGEMENT COMPANY, REPRESENTING THE NATIONAL MULTI HOUSING COUNCIL AND THE NATIONAL LEASED HOUSING ASSOCIATION

Mr. PINERO. Mr. Chairman, members of the Committee, my name is Hector Pinero. I am Senior Vice President of Related Management Company. We have our headquarters in New York City and own and manage approximately 26,000 units of multifamily housing in 13 States from New York to California.

I appear here today on behalf of the National Leased Housing Association, the National Multi Housing Council, and the National Apartment Association. I will use my few minutes to focus on HUD's budget as it relates to the Section 8 project-based assistance program and the recent funding shortfalls that have raised serious concerns about the ability of the Federal Government to honor its contracts.

In our opinion, the Section 8 subsidy mechanism is the most effective housing subsidy ever devised by Congress. It is an elastic subsidy that can reach the very poorest families and keep their rent burden proportional to the same as the rent burden of families with higher income.

Related Management's Section 8 project-based portfolio inventory totals 12,000 units in 69 developments. For Section 8 to continue to be an effective program, HUD must comply with its contractual promises to owners to make timely monthly assistance payments. In recent months, these payments have been as many as 2 to 9 months in arrears.

While HUD has been late sporadically in making payments over the past several years, it was not until the summer of 2007 that a major disruption occurred. From June through September, late payments were widespread over most parts of the country. In case of our portfolio, we billed HUD in June of 2007 $9.8 million in assistance payments for the month of July. Almost one-third of our bill, or $3.1 million, was not paid by July 31st. And about 20 percent, or $2 million, remained unpaid until November.

Owners do what they can to cope during these periods of nonpayment, such as drawing funds from reserves, if they exist, borrowing funds, delaying payments to vendors, and making personal contributions. However, not all properties have the ability to make ends meet when HUD fails to make timely payments, resulting in notices of default, inability to pay operating expenses, and deferred maintenance.

Late HUD payments not only affect the operations of a property, but also make difficult the preservation of these aging projects through sales and rehabilitation. Purchasers, lenders, and tax credit investors have now been put on alert that the Government may not perform under its contracts. And they will act accordingly to protect their interest, assuming they continue to participate at all.

We have attached to our testimony a list of 19 adverse consequences of delayed or insufficient HUD funding.

HUD has responded to the budget shortfall in the later part of fiscal year 2007 and fiscal year 2008 by entering into renewal contracts that no longer even purport to make a commitment for 1 year of funding, but rather obligate HUD only for a period of a few months with a promise to extend the short period for an indeterminate amount of time, when and if sufficient appropriations become available.

Our review of the HUD fiscal year 2009 budget proposal indicates that HUD plans to continue this short-term or incremental funding approach, which does not assuage the concerns of the industry.

What can this Committee to do help rectify the damage to the Section 8 portfolio? First, it can exercise closer oversight over the process HUD uses to make Section 8 assistance payments, as well as how budgetary needs are calculated. The Secretary should be directed to use a portion of the appropriated working capital funds for this purpose.

Second, legislation is being enacted to impose a penalty on HUD when its payments are more than 30 days late, remove requirements that owners receive HUD permission in advance to use project reserves to pay mortgages and/or employers, require HUD to notify owners when the late payments are anticipated.

Third, the Committee should urge that sufficient appropriations be provided for fiscal year 2009 to avert the succession of short-term funding obligations by HUD, including supporting any emergency funding of fiscal year 2008 to achieve that goal.

The industry stands ready to work with this Committee on these and other important housing issues and we appreciate your support.

Thank you for allowing me to air our views.

Senator MENENDEZ. Thank you, Mr. Pinero.

Ms. Randall.

STATEMENT OF DIANE RANDALL, DIRECTOR, PARTNERSHIP FOR STRONG COMMUNITIES

Ms. RANDALL. Thank you, very much. I am Diane Randall. I am Director of the Partnership for Strong Communities, which is a Hartford, Connecticut-based housing policy and advocacy organization. We promote solutions to chronic homelessness, affordable housing, and the development of vibrant communities.

We are a program arm of the Melville Charitable Trust, which is a Connecticut-based foundation investing in solutions to homelessness and community development.

I want to talk just briefly today about the impact of the Federal budget, the HUD budget, on a single State and how that money that the Federal Government grants to communities across the State of Connecticut intersects with the kinds of investments that our own State and philanthropic leaders are making in the State. And why it is so vital that we have continued stability of the kinds of programs that my colleagues here have talked about, the stability of the project-based Section 8 program, as well as the significant funding for the tenant-based Section 8.

We have worked extensively on solutions to homelessness, and I appreciate Senator Martinez's remarks about the leadership of Mr. Bognanno, and really, what we have seen across the country where citizens from local communities have engaged in creating plans to end chronic homelessness. These are very exciting and they are a sense of restoration of hope, of really addressing an intransigent problem in our country.

And yet there is a real belief that we can make a difference. But I am here to tell you, that difference will not be made unless this HUD budget is fully funded. And that includes significantly the funding for Section 8. This is one of the mainstream programs that we use to address chronic homelessness and that we use to prevent homelessness in our country. And it is just a critical need.

Likewise, the investment in public housing is a critical need. This is really one of the mainstays for how people who are very low income have housing. And if that budget continues to be short-funded at 81 percent, we will see increasing homelessness.

As Senator Dodd mentioned in his opening remarks, we have a dual housing crisis right now in this country. It is the subprime crisis, but it is the continuing crisis that very low income families have faced really for decades. And yet, there are signs of hope in the ability to address that. But the Federal budget is so critical.

I want to say just one thing about—I do sit on our State quasi-public housing finance authority board of directors. We administer the Federal Low-Income Housing Tax Credit Program in our State. We get a little bit over $6 million a year. That really has been the work horse for the production of multifamily housing across the country.

Increasingly, the demands from our public housing authorities to revitalize both our State and Federal public housing using these dollars is extraordinary. We cannot continue to have a production pipeline for creation of new affordable housing to address elderly needs or people with disabilities without the continued infusion of public dollars.

Another issue I just want to touch on, and I will leave the rest of them in my written remarks. But I want to touch on the role of philanthropic investments, because I work closely with a foundation. Philanthropy stands ready to look at best practices and try to stimulate change. But obviously, philanthropy alone cannot address this, nor can State governments.

In our State, we had bipartisan support from our State treasurer and our Governor to create a State housing trust fund of $110 million to be spent over a 5-year period. Again, this barely begins to really address the true need. And yet, this is a substantial investment. So without increased Federal investments, we cannot make headway that we know is vital to address the needs of thousands of citizens across the country.

The other issue I want to just say something about is the bipartisan nature, because there has been some reference in this committee about—particularly how housing has been a bipartisan issue. I am happy to say that in our State we see bipartisan support for solutions to homelessness in the production of affordable housing. What we would like is to see it ranked a little bit higher on the priority list. And I would say the same here, that it is critical that these issues get addressed because they affect so many people throughout the country.

Senator MENENDEZ. Thank you very much.

Mr. Olsen.

STATEMENT OF EDGAR OLSEN, PROFESSOR, DEPARTMENT OF ECONOMICS, UNIVERSITY OF VIRGINIA

Mr. OLSEN. Thank you, Mr. Chairman.

I welcome this opportunity to talk with you and the members of your Committee about the HUD budget. I speak from the perspective of a taxpayer who wants to help low-income families, albeit a taxpayer who has spent the last 40 years studying the effects of low-income housing programs. The views that I express should not be attributed to any of the organizations with which I am affiliated.

My testimony will focus on the HUD budget for low-income housing assistance.

Given the current economic slowdown and the added expense of fighting international terrorism, it is clear that little additional money will be available for low-income housing programs over the next few years.

The question is how can we continue to serve equally well the families who currently receive housing assistance and serve more of the poorest families who have not been offered assistance?

The answer is that we must use the money available more wisely. Research on the effects of housing programs provides clear guidance on this matter. It shows that tenant-based housing vouchers have a much lower total cost than any type of project-based assistance when they provide equally desirable housing. My written testimony contains references to these studies and a brief description of them.

The results imply that we can serve current recipients equally well, that is provide them with equally good housing for the same rent, and serve many additional families, without any increase in the budget by shifting resources from project-based to tenant-based assistance.

The magnitude of the gain from this shift would be substantial. Jeff Tebbs and I have estimated that a total shift from project-based to tenant-based assistance would ultimately enable HUD to serve 2 million additional families with no additional budget. The results are in line with the results of the best previous studies of the excessive costs of project-based assistance.

The key to achieving these large gains is a transition to the new system that hurts few, if any, current recipients of housing assistance. My written testimony contains a number of proposals along these lines. I will focus my oral testimony on a proposal for public housing reform that would significantly improve upon the HOPE VI approach, would greatly expand on the vouchering out provisions of the 1998 Housing Act, and would benefit many current public housing tenants.

My proposal requires no additional Federal funds. It is a proposal to better use the funds and assets currently available to housing authorities.

The proposal would allocate to each housing agency the same amount of Federal money as it would have received in operating and modernization subsidies under the current system, so that no housing authority could argue against the proposal on the grounds that it would have less to serve its clients.

With one exception it would require every housing agency to offer each current public housing tenant the option of a portable housing voucher or remaining in its current unit on the previous terms. The latter provision ensures that no public housing tenant would be harmed by the legislation. Families that accept the voucher would benefit from it. They would move to housing that they prefer to their public housing units.

These vouchers would be funded from the current budget for public housing and they would not necessarily be as generous as the current Section 8 vouchers. Housing agencies would be allowed to charge whatever rent the market would bear for units vacated by families that accept the voucher offer and sell any of their projects to the highest bidder. This would generate the maximum amount of money to operate and modernize their remaining projects or offer vouchers to additional families. It would also avoid scandals associated with sweetheart deals.

When a project is sold, the remaining tenants in that project would be offered the choice between vacant units in other public housing projects or housing vouchers.

When a former public housing tenant that had accepted a voucher gives it up, the housing agency would be required to offer a housing voucher to a family from its waiting list. This ensures that the housing agency would continue to provide housing assistance to at least as many families and, indeed, the same types of families.

If the preceding proposal is adopted, the public housing program in its current form would wither, but public housing agencies would do a much better job in helping low-income families with their housing.

I appreciate the willingness of the members of the Committee to listen to the views of a taxpayer whose only interest in the matters under consideration is to see that tax revenues are used effectively and efficiently to help low-income families.

Senator MENENDEZ. Thank you, Mr. Olsen.

Ms. Sard.

STATEMENT OF BARBARA SARD, DIRECTOR OF HOUSING POLICY, CENTER ON BUDGET AND POLICY PRIORITIES

Ms. SARD. Thank you, Senator Menendez. And thank the Committee for holding the hearing today, and for the Committee to conduct this important oversight.

Appropriators can decide how much to spend on each program. They are good at that. But what this Committee really needs to do is to analyze the impact that the substantial shortfalls in this budget would have on HUD programs and whether, in future years, the harm would be so great that we could not just easily recover.

Unfortunately, I think this is such a budget. The Center estimates that the magnitude of the shortfall this year is approximately $6.5 billion less than the amount needed to maintain current programs. And that is without doing a thing to touch the unmet and growing need for housing assistance, as the Chairman addressed in his opening remarks.

Why? Why is the shortfall so big this year? No one has mentioned this yet, and this is very important. This is the first year in more than a decade that the HUD budget is no longer padded by a cushion of approximately $2 billion in rescissions from the project-based or tenant-based Section 8 programs. The Administration did not propose such a rescission this year because those funds are no longer available.

There are complicated reasons, which we can get into it in questions, if you like. But the fact is that this year we need $2 billion just as an accounting adjustment to get to zero, before we even make up for the shortfalls in the particular programs. And you have heard a great deal already about the shortfalls in a number of the programs.

I beg to differ with Mr. Olsen, for whom I have a lot of respect and appreciate his backing of the tenant-based Section 8 program, but I doubt very much that this proposal would meet the needs of the public housing program, or that his voucher idea would work.

I want to focus for a few minutes on the needs of the housing voucher program. The Center estimates that we need $868 million more than in 2008, or $1.3 billion more than the Administration requested, to maintain the vouchers in use in 2008 into 2009. There are two main reasons why we need this increase. The first is simple, inflation. Housing costs are going up at more than the ordinary rate of inflation. And just HUD's inflation adjustment alone in the voucher program requires an increase of about $600 million.

The additional funds are needed because there are more vouchers to renew in 2009 than in 2008, because Congress expanded the program in 2008 but funded the new vouchers only for a year. So those vouchers have to be renewed. And because the changes in the renewal funding policy, which Congress has finally done in the last 2 years' appropriations acts, are beginning to show progress and more vouchers are getting used, that will increase the number of vouchers in need of renewal.

As Chairman Dodd said, without this increase, we estimate that there would be about 100,000 vouchers in use that would be cut next year. There is a table at the end of my testimony that shows the estimated cuts in every State. Unfortunately, however, even that figure is probably low because it depends on the availability of $600 million in reserves from agencies' funds. If Congress chooses not to use those reserves, as it well might not do, then the shortfall could be as much as one in 10 vouchers in use not being funded next year.

My time has run out, so I just want to emphasize that the voucher program has been subject to enormous volatility in the last several years, which has caused the loss of over $150,000 vouchers. The reason for that is the key policies, such as the annual renewal formula and the proper amount of reserves have not been incorporated in the authorizing law. It is critical that the Section 8 Voucher Reform Act, of which you are a cosponsor, is acted on by this Committee as soon as possible, so that these policy changes can be made this year.

Thank you very much.

Senator MENENDEZ. Thank you very much. Thank you all. We appreciate your testimony.

I have some questions. I am also tempted to ask, with no one else here to ask, for a series of unanimous consent requests. But I will not do that. The Chairman will never let me back.

[Laughter.]

Just kidding. Just kidding.

But I do have a series of questions. I want to take advantage of your expertise for the time we have left here.

Mr. Kelly, you are representing the large public housing authorities. You heard our interchange, my interchange as well as others, with Secretary Jackson. I appreciate his, you know, he is here on behalf of the Administration and basically, I guess, pursuing their standards.

But for my purposes of this hearing to draw facts, the Administration makes a couple of arguments. You heard some of them here today. They say—and I would like to hear your responses here.

One is that they say that many distressed housing units have been demolished so the capital needs in the program have decreased. Two, that access to private capital has also decreased the need for Federal funds for capital improvements. Third, that you heard in my interchange about the 81 percent of the cost of actual operations being funded, which is all-time low. That in fact, asset management, reserves, all of this is going to take care of that challenge.

Do you want to—I would love to hear from you, maybe Ms. Sard, if you could respond to it, as well. What are your responses? Because that is what we are being told as Members of Congress, this is not a problem.

Mr. KELLY. Senator, thank you so much for allowing me to respond.

At the District of Columbia, which I run the program here, as I testified, we have been as creative as we possibly can be. We have been the most successful, or as successful in the HOPE VI award process as any housing authority across the country. We have redeveloped six neighborhoods dramatically through that means.

We have gone to the bond market with what capital dollars that have been available and have stretched that. Wall Street has given us $80 million of that, leaving very little money left after loan payments available for the remainder of the program to modernize major systems.

And we are, at this point, tapped out. We have 14 sites that desperately need modernization work or major revitalization with no avenue. We turn to the city as best we can. Within our own resources we are then required to look at our maintenance and modernization budgets, our maintenance budgets, to keep these places up.

With the shortfall at almost 20 percent now, we are continuing to lose that battle. We are, in many cases across the Nation—not just myself but my able colleagues across the country—we are given a very tough choice. One, to ensure that our public housing stock meets housing quality standards and are livable. At the same time, with decreased resources, what we are doing is stretching things out. Garbage does not get picked up as quick as possible. Work orders do not get responded to as quick as we would like them to be. And incrementally, we were losing that battle with the deferred maintenance.

At some point, I think if there is not an infusion of modernization development funds to counteract that, we will be in a position of actually losing hard units of public housing and increasing the stress between need and resources.

Senator MENENDEZ. Ms. Sard.

Ms. SARD. There has been a very serious loss of public housing over the last decade. We estimate that there has been a reduction of 177,000 units from 1995 to 2007. So that is true.

But on the operating side, HUD's own budget documents say that the operating subsidy need for these remaining units, after that loss is taken into account, is over $5 billion and substantially more than the Administration has requested.

So it is their own formula that says this is the need. And my colleague has already explained why arguing that PHAS can rely on reserves is foolish.

On the capital side, endnote 12 of my testimony explains that we adjusted the last capital needs study that HUD had published for the reduction in units since that time. And it analyzes further the shortfall that nonetheless remains.

Senator MENENDEZ. Thank you.

Mr. Pinero, let me ask you, I am concerned—as I raised in my opening statement with the Secretary, but then I heard you echo it, about the possibility of owners being less willing to stay in project-based programs and continue to provide housing to low-income families as a result of the shortfall and HUD's insistence in signing short-term contracts.

How real do you think is that concern, if we were to continue on the same course that we are on?

Mr. PINERO. Owners want to be able to——

Senator MENENDEZ. If you could put your microphone on, first.

Mr. PINERO. Owners want to be able to service their residents. And they also want to be able to meet their financial responsibilities. So if there is uncertainty on the monies and the funds that are going to be available, then investors, owners will be reluctant to participate in these programs.

And if they are able to go to market to achieve the same goals without having to rely on the subsidy, they will choose that option. They will choose that option.

Related is committed to affordable housing, but if we cannot rely on the funding when we are going to see—we may have to seek other options. We do not want to do that. And I believe that is the most owners that are in the affordable housing business want to stay in the program. But we need some certainty. And three and 4 months does not provide anyone reassurance.

We have contracts for 1 year but we are only funded for three or 4 months, and that creates that problem.

Senator MENENDEZ. I heard from someone in your field—not your company, but in your field—who tell me well, we were told before, don't take from the reserve of one entity to, in essence, cross-subsidize another. That was definitely a no-no. And now we are told, because they do not have the money, by all means, go ahead and take the money and cross-subsidize.

Is that happening?

Mr. PINERO. We are not doing that. We are not taking from one pot to another pot. But we are finding ourselves during that shortfall, when we were not receiving funds, having to put our own money in to make sure that we are properly servicing residents while we waited to get the funds for many months. In one case, we did not receive $875,000, which was for a period of July and November, on a property in San Diego.

Senator MENENDEZ. Is the letter that Chairman Dodd and about 24 of us sent, asking for $2.8 billion in fiscal year 2008, would that go a long way toward solving this problem?

Mr. PINERO. Absolutely. We believe that if it is funded in the fiscal year 2009 budget, it will bring everybody whole and they will be able to fund the 12-month contracts, which is what the industry will have some comfort with.

Senator MENENDEZ. Thank you.

Ms. Randall, I am impressed by your work in Connecticut. One of my questions certainly, while the Administration continues to request small increases in homeless assistance, we want to move from homelessness to the different part of the—through the fulfillment of the spectrum, which is moving toward a place to call home.

And I am wondering, most homeless resources are not used for permanent housing. Your work, in terms of trying to create the connections with opportunities for housing in the long-term so that people will move from homeless to a place to call home, how do you see some of these programs interacting? What are some of the challenges?

Ms. RANDALL. I think some of your questions really speak to that, because we believe that it is critical to have both opportunities to combine tenant-based vouchers with supportive services that could be funded through HRSA, could be funded through State grants, could be funded through a variety of Medicaid resources. But we really promote the permanent supportive housing as a solution of chronic homelessness.

So the availability of an adequate supply of tenant-based vouchers is critical. In Connecticut, when our State Department of Social Services, which is the largest public housing authority administering housing-based vouchers opened its waiting list last summer, we had nearly 50,000 households apply for those vouchers and for rental assistance, State-based rental assistance. A waiting list of about 12,000 was established. We have nowhere near that number to serve the population.

The other need, though, is absolutely the funding of project-based vouchers, because we have an inadequate supply, as I think you probably are familiar with in your own State. There is an absolute need for production, because tenant-based vouchers alone are not feasible in very high markets like Fairfield County, for example. A very wealthy county but an individual who is living at $20,000 income or an individual living on disability or an elderly person on a fixed income, simply cannot afford often to use a tenant-based voucher.

So the stability of the project-based voucher program is incredibly important.

I want to say one more thing, the 8–11 program, which I know has a lot of criticism, is a program that we think could be better utilized. I know that Congressman Murphy from Connecticut is looking at proposals to try to restructure that program slightly to make it more amenable so that people with disabilities would have access to permanent supportive housing.

Senator MENENDEZ. Thank you very much.

Mr. Olsen, I know you advocate giving vouchers to many families, including current residents of public housing. And I certainly agree with you that vouchers can be an effective tool. But there is one point that I think we gloss over in the voucher context, and I would like to hear what you think about it.

While agencies are able to use most of their vouchers, they over issue vouchers, planning on having many families who will be unable to find housing. This is similar to what airlines do, for example, in over booking flights.

While this is effective in getting most vouchers used, it is clearly not a strategy that works for the families who are unable to find housing. Unlike stranded passengers, there is no next flight, so to speak. And so if they cannot find housing in a given time, their vouchers are taken away from them.

So under your plan, some of the hardest to house people would get left out, would they not? If there is no other public housing or other public housing or project-based housing assistance?

Mr. OLSEN. For the public housing reform that I just talked about a few minutes ago, no, because I offer them the option. Everyone in public housing is offered the option, the voucher or stay in your current unit on the current terms. And so if there are some areas of the country where it is hard to use vouchers, then relatively few will use them. In other areas, more will use them. So I think that solves that problem.

Senator MENENDEZ. So then you continue to support the existing public housing——

Mr. OLSEN. What I would like to see is when a person moves out of public housing with a voucher, that unit would be occupied by someone at market rent. We are continuing to serve the same number of people. It is just the mix between how many get their assistance in a public housing project versus getting it with vouchers.

So part of my proposal is to make sure that we continue to serve at least as many people. And actually, there will be savings involved here, so that the housing authority could serve more people if they wanted to.

Senator MENENDEZ. Although, certainly, if you are offering it at market rent, if someone could pay market rent they might look at a different venue to pursue their market rent than a——

Mr. OLSEN. There is a market rent. There is a highest rent the housing authority can get for every unit.

Senator MENENDEZ. Ms. Sard, you had made a comment earlier about Mr. Olsen's views. On this point, do you have a different view?

Ms. SARD. Two points that I would like to make. I think that some of what Mr. Olsen is talking about could be done right. But two things would be needed that would make it probably more expensive than the current set of programs. The first is you would have to fix up the public housing so that there would be a viable rent that a person would be willing to pay, who was not getting any rental assistance. And it would have to be an amount that was adequate to maintain the unit. Otherwise they are simply leading to the further deterioration of the project.

The second is I do not believe there is any evidence to support the assertion that much less costly vouchers would actually work. As you just said, we already have the problem with voucher subsidies pegged to fair market rents, that everyone is not able to find housing. The idea that you can find housing that meets quality standards at hundreds of dollars less per month simply has no evidence to support it.

I think that the—particularly since you are on the Budget Committee, Senator, I think the important takeaway from this panel has got to be that the budget that the Senate, and then the House and Senate, agree on has got to be at the highest possible level.

We are seriously concerned that neither the House nor the Senate budget actually has enough room under it for the kind of discretionary funding increase that is needed, compared to 2008 or compared to the Administration's budget for these key programs. We need roughly triple the boost to the HUD budget this year, compared to the increase the Congress provided in 2008. We are very concerned that the steps taken in the next few weeks in resolving the budget will basically tie the hands of the Congress in coming up with the adequate funding levels that we have expressed the need for.

Mr. OLSEN. Could I add to what Ms. Sard said?

Senator MENENDEZ. Surely.

Mr. OLSEN. We do have some experience with offering vouchers to people in the worst public housing. We have the Moving to Opportunity experiment that has been going on for a long time. And it gives compelling evidence that people you give vouchers to end up in better housing, safer neighborhoods, and their mental health is better.

We have a similar experience with the HOPE VI program where we offer people the option: voucher or public housing. And there is a big difference in the outcome. The people who use the vouchers end up in much better housing, safer neighborhoods and so on.

So we have some experience in doing this.

Senator MENENDEZ. Well, I appreciate those views. I will take your takeaway point to Senator Conrad, as the Chairman of the Budget Committee.

Let me thank you all for your testimony.

Let me make two statements for the record before we adjourn. Secretary Jackson told us this morning that HUD has submitted the required reports on Section 8. Last year's appropriations bill required them within 60 days. We have yet, as we understand it, according to Appropriations staff, confirmed that that report has been received. So we hope it will be today. I thought the answer was that it had already been done. We hope it will be today. If not, we will pursue it.

Let me also inform our witnesses that the record will remain open for 1 week so that other members who may not have been able to be here because they had conflicting hearings may ask questions in writing. If, in fact, you should get one of those questions, we would ask you to respond within 7 days.

With our thanks, on behalf of the Chairman, this hearing is adjourned. Thank you.

[Whereupon, at 12:25 p.m., the hearing was adjourned.]

[Prepared statements, responses to written questions, and additional material supplied for the record follow:]

WRITTEN STATEMENT OF

SECRETARY ALPHONSO JACKSON

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

HEARING ON

HUD'S FISCAL YEAR 2009 BUDGET

BEFORE THE

SENATE BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE

UNITED STATES SENATE

MARCH 12, 2008

Introduction
Thank you, Chairman Dodd, Ranking Member Shelby, and the members of the committee for this opportunity to appear today.

Mr. Chairman, the budget for the Department of Housing and Urban Development (HUD) represents an investment in the American people by the American people. This investment is measured in more than dollars. It is measured in the lives we touch, whether in creating and protecting sustainable homeownership, preserving affordable rental housing, helping the homeless, or revitalizing our cities.

The budget reflects America's compassion and commitment. The President's budget will ensure housing assistance for those in need, preserve and promote homeownership by addressing subprime mortgages, strengthen communities by sustaining homeownership gains, make further progress towards ending chronic homelessness, and continue the trend of improving HUD's management and performance.

Almost every American is touched by our programs, directly or indirectly. And there are few things more personal or cherished as the house or apartment where we live, watch our children grow up, and where we grow old. Our budget is about promoting new homeownership and making the American dream possible. The budget is about protecting families already in homes. It is about expanding affordable rental housing. It extends funding and services to those in need, including the disabled, veterans, the homeless, people with HIV/AIDS, and elderly and disabled people affected by hurricanes Katrina and Rita. Further, it continues to support and encourage community growth and revitalization.

I believe we have a good budget. It is fiscally sound, supports our mission, and fits in well with the overall vision for the President's entire fiscal year request. My department would receive an historic investment, $38.5 billion. This is an increase of more than $3 billion, or nine percent, over last year's proposal. The budget is almost $1 billion more than our current budget authority.

Let me break this down in more detail.

Ensuring Housing Assistance
I am pleased that the budget strongly ensures housing assistance for those in need. As in the past, Mr. Chairman, the largest part of our budget is for affordable rental housing. Combined, this budget seeks more than $29 billion for our rental assistance programs which we expect will help more than 4.8 million households. We are mindful of the continued need for more affordable rental housing, especially as some low-and-middle-income workers find themselves priced out of the real estate market in many cities. We need to maintain the units currently available and this budget will help us do that.

The budget increases primary housing programs by providing $7 billion to renew all project-based rental contracts and $400 million for an advance appropriation to bridge renewal funding into 2010. This will help provide housing assistance for nearly 1.3 million low-income tenants.

We also increase housing choice vouchers, reaching over two million low-income families, while removing the cap on the number of housing units that Public Housing Authorities may assist.

The budget also supports public housing operations with a request for $4.3 billion, the highest proposed funding level in history. This will cover the necessary operating expenses for 1.2 million public housing units.

The proposed budget also seeks $300 million for persons living with HIV/AIDS. This funding would provide housing and care for 70,500 people.

The proposed budget also contains $3 billion in Community Development Block Grant (CDBG) funding for states and local governments. We have once again asked Congress to revise the outdated funding formula for this program. With appropriate revisions, we can distribute resources more efficiently and fairly, making this funding more effective and helpful.

Mr. Chairman, let me also add some comments about the recovery effort from Hurricanes Katrina, Rita, and Wilma. The disaster was unprecedented. Recovery will take many years. We have been deeply involved in these recovery efforts.

You should know that HUD has funds available of nearly $20 billion throughout the Gulf Coast region to assist in recovery. States have spent approximately $8.5 billion to date. So far, more than 110,000 homeowners in Louisiana and Mississippi have received financial assistance from HUD. We know that there is more to do – much more. We have learned much and worked through some enormous difficulties. But progress is noticeable.

The American people should be proud of their investment and their compassion. If anyone wants to see America's heart, they should go to the Gulf Coast, where so many people have given generously of their time, their love, their patience, and their courage.

The Gulf Coast is coming back, and one important reason is a fundamentally sound approach to recovery.

When Hurricanes Katrina, Rita, and Wilma devastated the Gulf Coast, many of our most vulnerable citizens lost the only homes they had known. We recognized last year that some of those families affected by the storm needed additional time to recover, which is why the Administration transferred the responsibility for housing these families from Federal Emergency Management Agency (FEMA) to HUD under the Disaster Housing Assistance Program (DHAP) and extended government housing assistance another 18 months to 30,000 families.

The President is also requesting $39 million to ensure that the elderly and disabled families displaced by the 2005 Gulf Coast Hurricanes remain protected at the conclusion of DHAP. These Disaster Displacement Assistance vouchers will provide permanent affordable housing to eligible elderly and disabled families, while the remaining storm victims who are not on fixed incomes continue on the path to self-sufficiency.

The Department will administer these vouchers as part of the Section 8 Housing Choice Voucher Program. We will make rental assistance payments on behalf of these families, whether they have relocated or returned home.

Preserving and Promoting Homeownership

Promoting homeownership remains one of the central goals of this Administration. We have to get the housing market back on track. We know that homeownership is good for families, the community, the nation, and the world. Homeownership equals empowerment, wealth creation, independence, and fulfillment of the American Dream. It gives the family a stake in the community. Homeownership is a source of pride. It is particularly important for America's minority communities, which historically have lower rates of homeownership.

Clearly, the housing crisis is a powerful challenge. After the unprecedented, historic gains in homeownership between the start of the decade and 2005, there has been a downward trend in homeownership. The troubling rates of foreclosure and other housing indices reveal more than a statistical drop or figurative decline. They tell us of families losing their homes, of people losing their investments, and of dreams stolen away.

The causes are many. But the subprime situation is often the reason. But not all subprime loans are bad. Subprime loans broadened the availability of credit and led to housing investment for those who previously had less than perfect credit. And the majority of subprime loans are still being paid on time. About 20 percent of subprime loans are problematic. This means that many families cannot afford their subprime loans. Some families are on the edge of a financial abyss. The rapid rate of foreclosure threatens to continue unless appropriate actions are taken.

This budget will help HUD in its efforts to address the housing crisis. It will give us the tools we need to continue our work. We must reverse the downward trend in housing indices and homeownership. We must help homeowners retain their homes. We must also look to the future because we must increase the number of families who own their own homes. And we must retain the sizable increase in minority homeownership. As you may recall, in 2002, the President challenged the nation to create 5.5 million new minority homeowners by the end of this decade. And we have made substantial progress: 3 million more minority families have become homeowners since 2002. We must build on that progress.

Of course, the President's stimulus package will help. I'm grateful Congress has given this package its support. By temporarily increasing FHA loan limits, we can back more safe, sound mortgages in high-cost states and help homeowners trapped in exotic subprime loans to hold on to their houses.

We also need the President's request for $65 million in this budget for housing counseling. Why? Well, we have learned that housing counseling makes a powerful difference in homeownership and foreclosure avoidance. You see, many of the failed loans were a surprise because the homeowner didn't read the fine print and didn't understand the contract. Housing counselors could have helped the homeowner gain a better perspective about affordability and balanced expectations. Families must buy homes they can afford. They must understand the contracts – have an especially clear idea of the features of financing and the ramifications of resets, and the terms and the timelines. Prospective homeowners must have a prudent mortgage, not a "suicide loan." We must remove the mystery, confusion, and vagueness from the process. There must be full disclosure, understandable information, and a transparent process.

That's why we need housing counselors to be fully engaged in the process. Housing counselors are an important line of defense against foreclosure. They can enlighten homeowners and help prospective owners determine the affordability and appropriateness of a mortgage. They can explain the contract and answer questions.

The President has been a strong proponent of funding for housing counseling, and has worked with you to more than double the funding for housing counselors since the start of this Administration. Now, given the magnitude of the crisis we face, it is important to expand funding for housing counseling. The President's request in this area is paramount to prevent future foreclosures.

These funds, in addition to the President's request of $180 million for the Neighborhood Reinvestment Corporation, provide great services to those in need. And we now know that spending in this area is a sound investment, saving the nation from expenses related to foreclosures, lost revenues, slowdowns in business spending and new housing construction, and declining home values.

The Administration is also taking steps to ensure it isn't as hard for homeowners to read the fine print when they do sign on the dotted line. That's why we are committed to reform of the Real Estate Settlement Procedures Act (RESPA). We hope to publish a new RESPA rule in the coming days. Our goal is to bring much needed transparency to the home-buying process.

Strengthening Communities by Sustaining Homeownership Gains

The President has also requested a substantial increase of $263 million for our HOME program. This would bring the funding level up to nearly $2 billion for the nation's largest block grant program specifically designed to produce affordable housing. This request includes $50 million for the American Dream Downpayment Initiative, which provides flexible housing assistance, and increases affordable housing and minority homeownership. Since the inception of the HOME program 16 years ago, almost 812,000 units of affordable housing have been created.

We also need to support other efforts to maintain current homeownership and stimulate new purchases. In August 2007, the President and I introduced an effort, *FHASecure*, to help more Americans facing foreclosure refinance into a safer, more secure Federal Housing Administration (FHA) loan. We did this using current regulatory and I am pleased to report that the program is helping many families avoid foreclosure. There has been a noticeable increase in the number of closings with FHA. Two months ago, there were 2,500 closings a month with FHA. Now, there are 4,500 closings a week! By year's end, we expect FHA will be able to help more than 300,000 families refinance into affordable FHA-insured mortgages.

Mr. Chairman, you should also know that FHA has mailed letters to hundreds of thousands of at-risk homeowners to urge them to refinance with safer, more affordable FHA-backed mortgages. These letters are being sent to homeowners who already have or soon will confront the first reset of their adjustable rate mortgage, and are currently living in locations subject to FHA loan limits. We will be sending these letters out to about 850,000 at-risk homeowners.

But we could do so much more with legislation to modernize the FHA. Congress needs to quickly complete work on a bill that will immediately give us authority to expand FHA's ability to serve the very type of borrowers who were lured into high-cost, high-risk loans. We need to make the minimum down payment more flexible, create a fairer insurance premium structure, and permanently increase FHA's loan limits. This will allow more families to use FHA, perhaps hundreds of thousands of families. We need FHA modernization as soon as possible. Every day of delay places qualifying homeowners at unnecessary risk. Our estimates indicate that FHA modernization could help as many as 250,000 more families by the end of 2008.

We asked for this bill two years ago to help us avoid the mortgage crisis. But now we need it to help address the crisis.

I am also pleased that the mortgage industry has stepped forward to help. Treasury Secretary Paulson and I have worked closely with the mortgage industry to address the housing crisis in another way: enlist proactive industry cooperation. The industry worked with the Administration to develop a program called the *HOPE NOW Alliance* to help homeowners at risk of foreclosure. The *Alliance* has implemented a plan that could help up to 1.2 million homeowners avoid foreclosure over the next two years by providing systematic relief that includes modify or refinancing existing loans, moving borrowers into *FHASecure* loans, and implementing a five-year freeze on interest rate resets for subprime loans. The industry has already assisted 370,000 homeowners. HOPE NOW has contacted more than half a million borrowers in the second half of 2007.

There are other actions that will help. So, you'll see the budget has a sharp increase for our Self-Help Homeownership Opportunity Program (SHOP) that works with organizations like Habitat for Humanity and others to build housing through sweat equity.

Fair housing practices are an important aspect of homeownership. This year marks the 40th anniversary of passage of the *Fair Housing Act*. Our budget provides $51 million to protect the right of all Americans to be free from housing discrimination based on race, religion, gender, sexual orientation, family status, or disability. This is an increase of $1 million over the current appropriated level.

I also hope you will notice our new Fair Lending Division. This office will examine questionable mortgage practices and investment complaints from homebuyers. It is an important addition – a new way to directly address unfair practices.

This new division has already made an impact. Recently, HUD awarded grants totaling approximately $1 million for the development of strategies to address lending discrimination. These grants were awarded to state agencies in Ohio, Massachusetts, Colorado, and Pennsylvania, states with some of the highest rates of foreclosure in the nation. The agencies in these four states are developing "best practices" for intake procedures, investigation techniques, and education and outreach activities for their mortgage lending enforcement programs. These "best practices" will be made available to all state and local agencies in the Fair Housing Assistance Program (FHAP).

Ending Chronic Homelessness

And the homeless must not be forgotten. We are making strides in reducing chronic homelessness with our "continuum of care" approach. We are working to provide assistance across the entire spectrum of homelessness. This continuum of care is vital because homelessness is a complex, difficult, multi-dimensional problem, both for those who are homeless and for those who are working to meet the needs of the homeless.

Our national effort to end homelessness has been steadfast, with strong commitment and investment. Since 2001, HUD has awarded approximately $10 billion in funding to support the housing and service needs of the homeless.

We are working especially hard to stop the revolving door for the chronically homeless. Early on in this Administration, President Bush set a goal to end chronic homelessness in America. If we are to be successful, we must help break a cycle of circumstances and behaviors that consistently place the chronically homeless on the streets.

And there is evidence that we are making progress. The investment by HUD and local communities is working. In November, HUD announced that, across the country, local communities saw a nearly 12 percent drop in the number of individuals who literally call the streets their home, nearly 20,000 fewer persons living on our streets. This was good news. It shows that the hard work of thousands of people is paying off, that our efforts can make a powerful, positive difference.

Of course, we still have a long way to go before ending chronic homelessness. There are still people living on the streets, many of them are mentally ill, addicted to alcohol and/or drugs, or physically disabled. These are the most vulnerable among us, the hardest-to-house and the hardest-to-serve. The chronically homeless are people who are homeless for more than a year or who continue to cycle back into homelessness. They are people who need serious, sustained assistance to overcome their homelessness.

Mr. Chairman, I know you are mindful of the need to help our nation's homeless veterans. Americans are deeply, profoundly grateful for the service and sacrifice of our nation's veterans. In the proposed budget, there is a request for $75 million for our Veterans Affairs Supportive Housing Program (VASH). Prior to Fiscal Year 2008, this program had not been funded since 1993. Working with the Veterans Administration, we will create an additional 9,800 vouchers for FY09, bringing the total to approximately 20,000 homeless veterans being served through housing and social services, double the number of available housing vouchers.

Continuing HUD's Improved Management and Performance

Finally, I would like to discuss the management of the Department. For the first time since 1994, the Government Accountability Office (GAO) removed HUD's single-family housing mortgage insurance and rental housing assistance programs from the list of High-Risk federal programs. I am very proud of that fact.

I am also very pleased that HUD achieved a clean opinion in its 2007 financial statements, continuing a multi-year trend.

We need to build upon this progress. So, Mr. Chairman, I also want to mention that the $313 million included in the request for our Working Capital Fund will enable the Department to make critical upgrades to our aging information technology (IT) systems. If we want to improve the delivery and control of the Department's significant program resources for the benefit of the people and communities we serve, then it is imperative that we have sufficient funding for IT systems modernization efforts. The $65 million reduction of our 2008 request for IT funding was devastating. That reduction has stopped practically all HUD systems modernization efforts.

Mr. Chairman, this committee should know that without sufficient funding, we will be unable to modernize FHA's 25 year old mainframe systems to effectively support FHA program reforms. We will be unable to improve the automation of the Section 8 Project-Based Assistance contract renewal and payment processes. We will be unable to effectively implement asset management improvements over the public housing stock. We will continue to manage our $16 billion a year Housing Choice Voucher Program through a cumbersome spreadsheet process rather than an automated database that can provide timely information for HUD and Congressional oversight. HUD has demonstrated the ability to successfully use its limited IT funding. I urge you to support the budget request for IT funding.

Conclusion

Overall, this is a good budget for the Department...balanced, reasonable, appropriate, and workable. It allows us to operate within a framework of cooperation and partnership with other federal agencies, state and local governments, and non-profit initiatives. The American people count on HUD...count on us for direct assistance, grants, professional administration, and high-quality public service. With this budget we meet those expectations. With this budget we can get the job done.

I also want to thank the employees at HUD for their extraordinary service during a very trying and difficult period. Mr. Chairman and members of the committee, I am sure that you would be extremely impressed by the day-to-day work product of our employees. I am very proud of my colleagues at HUD.

Mr. Chairman, as we proceed through the budget process, I look forward to working with you. I thank you and the committee for your consideration of this budget request.

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CLPHA
making public housing work in your community

TESTIMONY OF

MICHAEL KELLY

EXECUTIVE DIRECTOR, DISTRICT OF COLUMBIA HOUSING AUTHORITY

and

PRESIDENT, COUNCIL OF LARGE PUBLIC HOUSING AUTHORITIES

before the

U.S. SENATE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

MARCH 12, 2008

Testimony of
Michael Kelly
Executive Director, District of Columbia Housing Authority
and
President, Council of Large Public Housing Authorities
before the
U.S. Senate
Committee on Banking, Housing, and Urban Affairs

March 12, 2008

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.

NMHC National Multi Housing Council® NLHA National Leased Housing Association NAA National Apartment Association

TESTIMONY OF HECTOR PINERO

RELATED MANAGEMENT COMPANY, LLC

ON BEHALF OF THE

NATIONAL LEASED HOUSING ASSOCIATION

NATIONAL MULTI HOUSING COUNCIL

NATIONAL APARTMENT ASSOCIATION

BEFORE THE

SENATE COMMITTEE

ON BANKING, HOUSING AND URBAN AFFAIRS

March 12, 2008

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Chairman Dodd, Senator Shelby and distinguished members of this committee, my name is Hector Pinero and I am Senior Vice President of Related Management Company. My firm manages 26,000 apartments of affordable and market-rate housing in 135 locations in 13 states from New York to California. I am responsible for the affordable housing portfolio in the New York metropolitan area. Today I am representing the National Leased Housing Association (NLHA) the National Multi Housing Council (NMHC) and the National Apartment Association (NAA).

NLHA represents the interests of 600 member organizations involved in federally assisted rental housing including developers, owners, lenders, housing agencies and nonprofits. NLHA's members provide affordable rental housing for over three million families.

NMHC represents the interests of the larger and most prominent firms in the multifamily rental housing industry. NMHC's members are the principal officers of these organizations and are engaged in all aspects of the development and operation of rental housing, including the ownership, construction, finance and management of such properties.

NAA is the largest national federation of state and local apartment associations, with nearly 200 affiliates representing more than 51,000 professionals who own and manage more than six million apartments.

We commend you, Chairman Dodd, for your leadership, and we thank the members of the committee for your valuable work addressing the important issue of housing and the federal budget.

Fiscal Year 2009 Proposed Budget

On February 4, the President unveiled his Fiscal Year 2009 budget. The President's plan would fund the U.S. Department of Housing and Urban Development (HUD) at $38.7 billion, which according to the Center on Budget and Policy Priorities, is $330 million above current levels, but insufficient in light of the housing affordability issues plaguing this country. The HUD budget continues to strain efforts to provide decent and safe affordable housing. Over the years, HUD spending has declined significantly, illustrated by the fact that HUD's budget in 1974 was nearly $70 billion (in today's dollars) as compared to the $38.7 billion being proposed for FY09. Clearly, such cuts are indicative of the reduced commitment of the Federal Government to affordable rental housing in favor of failed homeownership policies.

We would like to focus our testimony on two programs that are the cornerstone of federally assisted housing, the Section 8 tenant-based rental assistance program, also known as the Housing Choice Voucher program and the Section 8 project-based programs.

Project-based Section 8

The project-based Section 8 programs, enacted more than 30 years ago, have provided effective and enduring shelter for millions of low-income families. In addition to making possible the construction or rehabilitation of housing units dedicated to low-income occupancy for extended periods, the program reduces the rent burden for low-income residents living in those properties.

My company, Related Management, has its headquarters in New York City and owns and manages about 26,000 units of multifamily housing in 13 states from New York to California. Our Section 8 project-based inventory totals 11,287 units in 64 projects.

In our opinion, the Section 8 subsidy mechanism is the most effective housing subsidy ever devised by Congress. It is an elastic subsidy that can reach the very poorest families and keep their rent burden proportionately the same as the rent burden of families with more income.

However, for Section 8 to be an effective program, HUD must comply with its contractual promise to housing providers to make timely monthly assistance payments. These assistance payments cover the difference between tenant rent contributions, generally set at 30 percent of a tenant's adjusted income, and the HUD-approved rents for the property. The tenant rent contribution generally pays for only a small portion of the costs of running a property, including debt service payments. Without assistance payments from HUD a building cannot continue to operate and serve its residents.

While HUD has been late sporadically in making payments over the past several years due to its antiquated computer systems, it was not until last summer that a major disruption in payments occurred. From June through September, late payments were widespread over most of the country. The negative impact of HUD being delayed in meeting its contractual obligations has both short- and long-term consequences, which we will discuss along with our recommendations to the committee for addressing the problem.

In the case of our company, for example, we billed HUD in June of 2007 for $9.8 million in assistance payments for the month of July. Almost one-third of our bill, or $3.1 million, was not paid by July 31, and about 20 percent or $2 million remained unpaid until November. One of our properties, in San Diego, received no funds for the period of July through November, for a total of $875,000. No doubt many other owners have been hit harder than us, but any late payment at any time is indefensible.

Owners do what they can to cope during these periods of nonpayment, such as drawing funds from a replacement reserve and other reserves if they exist, borrowing funds, delaying payments to vendors, and making personal contributions. However, not all properties have the ability to make ends meet when HUD fails to make timely payments, resulting in notices of default, inability to pay operating expenses, deferred maintenance, etc.

Late Housing Assistance Payments (HAP) not only affect the operations of a project but also make more difficult the preservation of these aging projects through sales, often to nonprofit or other preservation purchasers that commit to long affordability periods, and through rehabilitation, usually with proceeds from the low-income housing tax credit.

Purchasers, lenders, and tax credit investors have been put on alert that the government may not perform under its contracts, and they will act accordingly to protect their interests, assuming they continue to participate at all. We have attached to our testimony a list of 19 adverse consequences of delayed or insufficient HAP funding. We think it will be helpful to explain the circumstances that resulted in the late HAP debacle.

In the mid-to-late 1970s and early 1980s, when the Section 8 project-based programs were first developed, the monies for the HAP contract (be it 20, 30 or 40 years) were funded up front. For example, the costs of a 20-year contract were appropriated during the first year of the contract. Further, the subsidy amounts were based on the total rental costs at the time and did not consider the tenant contribution, which left wiggle room for rent increases during the contract term. When the first of the 20-year contracts started to expire around 1994, it was the first time in twenty years that Congress needed to make an appropriation to subsidize the properties. Congress agreed to fund the renewals, but only at rents not to exceed comparable market rents (hence the Multifamily Assisted Housing Restructuring Act (MAHRA), which provided the Mark-to-Market program and ultimately the Mark-Up-to-Market program).

As the number of HAP contracts renewing under MAHRA continued to increase and more appropriations were needed, instead of HUD requesting additional funds in its budget request, the Department chose to ask for less funding than was actually required to renew the contracts. This approach masked the true costs of contract renewals, but it was successful for a number of years because HUD was able to recapture previously appropriated funds remaining in HAP contracts that were about to expire. When most of the 20-year contracts expired around 2001 and 2002, the availability of recaptured funds diminished. HUD's need for increased funding for Section 8 renewals should have been reflected in its budget proposals around that time, but again HUD chose to mask the true costs.

To enable the renewal of contracts without sufficient appropriations, HUD chose to renew the HAP contracts with less than one year of funding. For example, if a contract expired in December of 2005, HUD would provide 9 months of funding until September 30 (the end of the fiscal year) instead of providing the full 12 months of funding up front. Essentially, it was bifurcating the 12 months of funding over two fiscal years. In this example the remaining funding for the contract would have been provided after October 1 (the new fiscal year) at which time 3 months of funding would be added to the contract for a total of 12 months. Until last year, this practice was invisible to the owners. However, in the fall of 2006, HUD's Chief Financial Officer (CFO) determined that such partial funding of contracts could not continue as the CFO believed this approach to be a violation of the Antideficiency Act (ADA), a law that is intended to ensure that appropriated funds are not mishandled. This new interpretation of the law by the CFO (which, incidentally, was not put into writing until requested by Members of Congress more than a year later) resulted in HUD reverting to funding renewals for the full twelve months in advance and not in increments.

Because the HUD FY07 budget request was based on its previous practice of partially funding contracts, there were insufficient funds appropriated by Congress, thus creating a large shortfall. The result of the shortfall was a delay in funding to thousands of Section 8 properties. When HUD realized in May of 2007 that it would not have sufficient funding to renew all of the contracts expiring in FY07, HUD's Office of Housing eventually reached a compromise with its CFO office to revert to partial or incremental funding of renewal contracts as long as the renewal HAP contract was amended to reflect the fact that partial (and not 12-month) funding was being provided at the time the renewal contract is executed. In other words, if HUD disclosed to the owner that only partial funding was being provided, the CFO deemed that HUD was not in violation of the ADA.

HUD's policy of incrementally funding (or funding for less than 12 months) continues in the current fiscal year (FY08) because of insufficient appropriations. Further, the President's FY09 request does not include sufficient monies to put Section 8 contract renewals back on a 12-month funding track. Insufficient funding coupled with HUD's inefficient payment process and questionable disbursement systems is likely to create financial disruptions to Section 8 properties for the foreseeable future.

The perception a partially-funded contract creates is devastating. It is of a government struggling to keep its financial house in order. Until recently, several years of predictability and stability in the Section 8 renewal process have led purchasers, lenders and investors in Section 8 properties to rely on long-term Section 8 renewal contracts, even though they are subject to annual appropriations, as sufficient backing for their investment. They assumed the appropriations risk in these contracts because they thought the risk was minuscule. They are not so sure anymore.

There are other more technical, but serious, concerns with short funding commitments. These contracts purport to bind an owner to providing Section 8 housing for one year. If HUD funding stops after 4 months, is the owner bound to continue to comply with Section 8 rent and other rules without receiving assistance payments? If the owner can get out of the contract will it be bound by the one-year tenant notice statute, which will prevent the owner from raising rents for one year after an opt-out notice to the tenants? Will the tenants be eligible for enhanced vouchers if the contract is abrogated? Will HUD wait until the one-year notice period has elapsed before awarding enhanced vouchers to the tenants, as has been its recent policy? Will there be sufficient funding for all enhanced vouchers?

All of these concerns will influence an owner's decision to remain in the program or to opt out, as well as decisions about whether to purchase and rehabilitate Section 8 projects. At a minimum, owners will more likely give routine notices to tenants that they intend not to renew a Section 8 contract, in order to reduce their exposure period during which they do not receive assistance payments but cannot raise rents. These opt-out notices will cause anxiety among tenants who will be placed in a continual state of uncertainty as to whether they will lose their homes or not.

Unless the industry has confidence that the government is committed to adequate and timely funding, the Section 8 inventory is likely to shrink in size. Nor will it get the new investment needed to preserve these properties as affordable housing and to keep them affordable far into the future.

What can this Committee do to help rectify the damage done to the Section 8 inventory? First, it can exercise close oversight over the process HUD uses to make Section 8 assistance payments, as well as how budgetary needs are calculated. The Secretary should be directed to use a portion of the appropriated working capital funds for this purpose. Second, legislation should be enacted to: impose a penalty on HUD when its payments are more than thirty days late; remove any requirements that owners receive HUD permission to use reserves to pay their mortgages and employees when HAP payments are late; and require HUD to notify owners when late payments are anticipated. Third, the Committee should urge that sufficient appropriations be provided for fiscal year 2009 to avert the use of a succession of short-term funding obligations by HUD.

Housing Choice Vouchers

We would also like to express our strong support for the Section 8 Voucher Program. Housing Choice Vouchers enable nearly two million households of low- and very-low-income families and the elderly to achieve decent, safe and affordable housing. The program has been successful because it provides choice to families, allowing them to rent decent and safe apartments in the communities that are near their schools, churches and workplaces. It also has the benefit of reducing the concentration of poverty. Vouchers also enable the private sector to partner with housing agencies to improve the housing stock in communities as well as protect tenants during market rate conversions. Vouchers are an essential tool for the provision of housing assistance and are supported by the owner community. Related Management is a strong supporter of this program and currently leases to 1,600 voucher holders.

We are concerned about the future of the program because HUD's budget proposes to reduce funding for the voucher program by nearly half a billion dollars, offsetting the reduction by relying on unused reserves, a move that the Center on Budget and Policy Priorities (CBPP) believes will result in the loss of at least 100,000 vouchers. Further, the proposed budget recommends using a funding formula that would base FY09 funding on the costs per voucher (plus inflation) from FY07 instead of the previous 12 months. This is unacceptable to our members because such an approach will result in additional shortfalls, jeopardizing housing assistance currently in use by tens of thousands of low-income families. It is imperative that the 2009 funding cycle be based on leasing and cost data for the most recent federal fiscal year as provided for FY08 by the Omnibus Appropriations Act (H.R. 2764) that President Bush signed into law on December 26, 2007. This is a fair formula that maximizes the amount of dollars provided by the appropriations process and ensures program stability.

The Broader National Housing Crisis

The current situation in the for-sale housing market is an unfortunate turn of events that is made even more unfortunate by the fact that it was completely foreseeable and preventable. For decades the government has pursued a "homeownership at any cost" housing policy. Many government officials, like other participants in the housing sector, mistakenly assumed that house prices would always go up. So they enticed people into houses they could not afford, and they forgot the rarely spoken truth that there is such a thing as too much homeownership.

Now we are seeing the consequences of that misguided policy. For years, we and others have been predicting this meltdown. We have been warning policymakers that pushing homeownership so aggressively could be disastrous not only for the hard-working Americans lured into unsustainable homeownership, but also for our local communities and our national economy.

That is exactly what is happening now. People are losing their homes, local communities are struggling with blight and crime, and our national economic growth is at risk. We understand that policymakers are worried that this situation might spill over into the broader economy, and we support efforts to help our country avoid a housing-induced recession.

The mortgage market meltdown represents a failure of government oversight and regulation. Despite repeated warnings, nothing was done to prevent it. On the contrary, the federal government gave a "green light" to this bubble by trying to push homeownership without limits and even trying to create a federally insured no-downpayment mortgage.

Unfortunately, while there was much the government could have done to prevent this crisis, there isn't much it can reasonably do now to alleviate it. What it can do, however, is recognize its own mistakes and ensure that this doesn't happen again. And that means, among other things, recognizing that homeownership isn't the right housing choice for all households at all points in their lives. Housing our diverse nation well means having a vibrant rental market along with a functioning ownership market. It's time we adopt a balanced housing policy that doesn't measure success solely by how much homeownership there is.

Conclusion

I thank you for the opportunity to testify on behalf of the National Leased Housing Association, the National Multi Housing Council and the National Apartment Association, and wish to offer our assistance to the committee as you continue your important work.

SOME IMPLICATIONS OF INADEQUATE FUNDING OF PROJECT-BASED SECTION 8 CONTRACTS

NLHA

If Congress fails to appropriate sufficient funds for FY 2008 to make all contractual Section 8 payments, in original and renewal contracts, this failure will be regarded by participants in the Section 8 program, other housing programs, other federal programs, and the capital markets as a default by the United States in its perceived moral obligation. The Section 8 contract has already been devalued even without a default by sustained talk of inadequate funds, widespread late payments in 2007, and the inability of HUD to provide one-year extension contracts because of insufficient funds. A quick and decisive fix may salvage some of the damage.

The following are several specific adverse consequences:

(1) Lenders will be less willing to make long-term loans for refinancings or purchases of Section 8 projects, transactions that help in the rehabilitation and preservation of the projects.

(2) Investors and syndicators will be less willing to purchase low-income housing tax credits, which are key to the sale and rehabilitation of those projects.

(3) To the extent the above players continue to participate, it will be on more onerous terms and with a more rigorous selection process to assist only projects that would be viable if Section 8 payments terminated.

(4) Owners who economically can opt out of the Section 8 program will plan to do so and will do so at the first opportunity.

(5) Owners can also stop providing Section 8 housing even prior to contract expiration if HUD fails to provide assistance payments.

(6) Tenants will become anxious about the potential loss of their subsidy and homes. The elderly are particularly susceptible to those concerns. Some will move out and live with their families, thus losing their eligibility for tenant protection vouchers when an owner opts out.

(7) Owners will select the highest-income tenants they legally can select in order to mitigate the impact of missed or reduced assistance payments.

(8) The cost of enhanced vouchers and other tenant protection vouchers will soar, or, alternatively, all tenants will not be protected if there is an opt-out.

(9) There may be an increase in defaults on FHA-insured mortgages covering Section 8 projects.

(10) Affordability use restrictions for projects that have been restructured in the mark-to-market program, which run 30 years, would be converted to permit higher-income tenants to be served.

(11) Fifty-year affordability use restrictions for LIHPRH projects and existing use restrictions for ELIPHA projects would be terminated and the projects rented to market tenants if HUD cannot provide all the contractual Section 8 payments.

(12) For those projects remaining in the program, there will be an increase in deferred maintenance, depletion of replacement reserves, and little likelihood of obtaining tax credits for rehabilitation.

(13) Prices realized by HUD in selling foreclosed properties with Section 8 subsidies would decline.

(14) If Congress authorizes the conversion of rent supplement and RAP contracts to Section 8, there will be few takers.

(15) Participation and continued participation in other housing programs involving multi-year subsidies, such as project-based vouchers, tenant-based vouchers, and participation in the 202/811 programs would decline, or the quality of participants would decline.

(16) The lack of sufficient Section 8 funds will also thwart the refinancing of older Section 202 projects for the elderly and disabled that have section 8 subsidies. Many of these projects are 20 to 30 years old and can be preserved for another long period with recapitalization and rehabilitation, but lenders and investors would be wary of participating.

(17) The ability of public housing agencies (PHA) to borrow funds for capital improvements, secured by future appropriations to the capital fund, would be made more difficult and costly.

(18) Participation in non-housing federal programs, dependant on ongoing federal subsidies, would be compromised if participants felt the United States defaulted in the major Section 8 program.

(19) There are broader implications in the capital markets. A default by the United States in any area could send further shock waves to the already shocked markets. Would this be the end of the perceived federal backing of Fannie Mae and Freddie Mac obligations, and if so, would that increase borrowing costs for home purchases and refinancing? Would the hint of default by the United States raise borrowing costs for Treasury?

Partnership for Strong Communities at The Lyceum

Diane Randall Testimony, March 12, 2008

Director, Partnership for Strong Communities

Presented to

United States Senate Committee on Banking, Housing, and Urban Affairs

Dirksen Senate Office Building, Room 538

Chairman Dodd, Ranking Member Shelby, and Members of the Committee, thank you for the opportunity to testify today on President Bush's proposed Department of Housing and Urban Development budget. I am Diane Randall, Director of the Partnership for Strong Communities, a housing policy organization, based in Hartford, Connecticut. We promote solutions to homelessness, affordable housing, and the development of vibrant neighborhoods. The Partnership is the policy arm of The Melville Charitable Trust, a Connecticut-based foundation that invests in solutions to homelessness and effective community development.

I am here to tell the story of how this budget will affect thousands of families in my state of Connecticut and to urge you to fill the significant funding gaps in vital housing programs. I don't need to tell you that we are in a very volatile time in today's turbulent housing markets, where growing numbers of families are losing their homes through foreclosure, neighborhoods are at risk of deterioration and families are subjected to the roller coaster of instability and insecurity.

Your actions to restore stability to vital housing programs that promote economic security and provide safety to hundreds of thousands of families with young children and elderly and disabled citizens is crucial now, more than ever.

Ending Homelessness

Although Connecticut is one of our country's richest states, we are not immune to the problems of homelessness and housing affordability. We estimate, that over the course of the year, 33,000 people in Connecticut, including 13,000 children, experience homelessness. Our statewide campaign to end chronic homelessness in Connecticut—the Reaching Home Campaign—is dedicated to the creation of 10,000 units of permanent supportive housing. I'm pleased to tell you we have made progress. Through effective use of HUD McKinney-Vento funds, HOPWA, Section 8, and the 811 program AND with millions of dollars in state and philanthropic investments we have created over 3,000 units of permanent supportive housing operating in nearly half of our cities and towns. We appreciate the Administration's increase in the HUD McKinney-Vento program; however, because permanent housing renewals alone will increase by approximately $95 million, this funding level is inadequate.

Furthermore, if the Administration proposed budget were enacted, Connecticut would likely see a surge in homelessness through the loss of over 1,500 Section 8 Housing Choice Vouchers and over 3,700 units using Section 8 Project Based Rental Assistance.[1] **I urge you to increase funding in the Section 8 program and in all HUD programs that end and prevent homelessness for millions of Americans and that improve the quality of life for people in neighborhoods all over the country.**

But asking you to help us solve the problem of chronic homelessness would be incomplete without asking you to help solve the problem of housing affordability. People in Connecticut, and every state, become homeless because of health or family issues, but also because they simply can't handle an added expense, or lose a job, and get evicted from their homes. Creating more housing options they can truly afford – without having to pay more than 30% of their income on housing – is IMPERATIVE. We can't ensure people have housing, much less end homelessness, without PREVENTING homelessness, too.

We know it is critical to draw on every resource possible—federal, state, philanthropic and local human capital—to build, operate and manage housing that serves the resident population and the communities they live in.

This includes not only the existing HUD programs for production but also including the National Housing Trust Fund in the budget resolution. I urge the Committee to act quickly on S. 2523, the National Affordable Housing Trust Fund Act of 2007, to establish a National Housing Trust Fund.

Section 8 Program Offers Stability for Families and the Elderly

The Section 8 program is a successful affordable housing resource that effectively targets individuals who are elderly or with disabilities and extremely low incomes, including recipients of Supplemental Security Income (SSI) benefits. We rely on the Section 8 program to prevent homelessness among families and the elderly. Housing providers match Section 8 vouchers with state service funding to create new units of supportive housing. In Connecticut, as in the rest of the country, the need for additional housing vouchers is enormous. Last summer, our state Department of Social Services, which also functions as the housing authority with the largest operation of Section 8 Choice Vouchers, opened the waiting list for the Section 8 Housing Choice Voucher program and the State Rental Assistance Program waiting

[1] Center of Budget and Policy Priorities. "HUD Budget Contains Major Funding Shortfalls." Douglas Rice, Barbara Sard and Will Fischer. March 5, 2008

lists. Nearly 50,000 households applied for approximately 1,000 Section 8 vouchers and RAP certificates.

While funding in this proposed budget for new Section 8 vouchers dedicated to the elderly and disabled who were displaced by Hurricane Katrina is encouraging and should be maintained, the funding for the Tenant Based Rental Assistance Account in the budget of $1.3 billion is less than is needed to fund existing vouchers and would result in the loss of at least 100,000 vouchers. This would be a step backward in the government's efforts to end homelessness and to stabilize families and the elderly. The Partnership for Strong Communities also strongly supports the Section 8 Voucher Reform Act of 2007 (SEVRA.)

Building and Preserving Affordable Housing

In a high cost housing state like Connecticut that has an aging housing stock, we are severely in need of capital financing and project based rental subsidies for the development and preservation of affordable rental housing. Working closely with our State Treasurer, Denise Nappier, Governor Rell and our General Assembly, three years ago the Partnership for Strong Communities helped to create a $110 million State Housing Trust Fund, which awards between $20 and $30 million annually in grants and loans for the development of affordable home ownership and rental housing. This program, like our state Housing Tax Credit program which awards $10 million annually, is consistently oversubscribed.

As a member of the Connecticut Housing Finance Authority Board of Directors, I see a bursting pipeline for federal Low Income Housing Tax Credits, the workhorse program to produce new affordable rental housing. In Connecticut the fierce demand for the roughly $6.3 million we receive annually in 9% tax credits is led by our housing authorities that have huge capital needs for revitalization of both federal and state public housing. While the resources of our quasi-public housing finance authorities

can contribute to public housing preservation, increasing the Public Housing Capital Fund, the Public Housing Operating Fund and fully funding HOPE VI will reduce demand from public housing authorities for vital production programs for new development of affordable rental housing for seniors, for the disabled and for a younger workforce that we desperately need in our aging state. HOPE VI developments in Stamford, Hartford and New Haven have created mixed income housing in neighborhoods that are attractive and safe.

Addressing the Supply Problem of Affordable Housing

The problem of housing affordability affects millions of Americans—from those at risk of foreclosure to those who routinely pay over 30% of their household income for housing. Here's how dire the situation has gotten in our state. In 2004, 19% of Connecticut's households were burdened by housing costs – they made 80% of median income, or less, and spent 30% or more of that income on housing. In just 2 years – by 2006 – that proportion had risen to 26% of CT households: from less than a fifth to more than a fourth of the population.

With aging housing stock, housing prices that have risen 70% since 2000, and communities that resist new housing production of any kind, let alone affordable housing, **consistent, reliable funding from the federal government for the production, revitalization and maintenance of affordable housing is critical.**

The Partnership for Strong Communities also staffs the HOMEConnecticut campaign, a broad-based coalition of unlikely allies who all agree that housing affordability must be addressed for our economic vitality. We successfully passed a statute last year to provide our cities and towns with state incentives to create more "workforce" or "attainable" housing. We believe that inclusionary zoning practices that allow for local oversight in design and location are another important tool to meeting the demand for low and moderate income housing.

But the fact is that our state and its municipalities need help from Congress. We need not only more subsidies, but also more infrastructure and remediation and transportation-oriented-development funds to help us rebuild affordable cities and create livable affordable neighborhoods in many towns that can't find teachers, volunteer firefighters and other necessary workers because there are simply no affordable homes for them to live in. We need Congress to think out of the box, to renew its partnership with our neighborhoods, and provide housing help to our states and municipalities well beyond what has been available in recent years.

The Partnership for Strong Communities works with a number of national organizations that provide both policy expertise on the federal budget and technical

assistance to state and local governments, including the National Alliance to End Homelessness, the Corporation for Supportive Housing, the National Housing Conference and the National Low Income Housing Coalition. We stand with them as local partners ready to work with our state and local governments, non-profit and for-profit housing developers, social service providers, business leaders, philanthropy, tenants, homeowners and neighborhood leaders who are working to make housing available, attractive, affordable and an asset to our citizens and our communities.

Thank you for the opportunity to testify here today. I urge you to restore funding levels to the President's budget to prevent additional families from experiencing homelessness and to mitigate the instability caused by the subprime crisis. Your attention to strengthening successful housing programs through adequately funding the HUD budget and in enacting SEVRA and the Housing Trust Fund will be significant federal measures to preserve and create affordable housing in Connecticut and across the country.

Getting More from the HUD Budget

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Submitted for Hearing on Oversight of HUD and its Fiscal Year 2009 Budget

U. S. Senate Committee on Banking, Housing, and Urban Affairs

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* This paper reflects the views of its author. It does not represent the official position of the University of Virginia. The University does not have an official position on low-income housing policy.

Getting More from the HUD Budget

1. Introduction

Low-income housing programs are an important part of the U.S. welfare system. The most widely cited figure for government expenditure on these programs, about $30 billion a year, refers to HUD's direct expenditure. This figure ignores the large and rapidly growing Low Income Housing Tax Credit, major USDA programs, expenditures of state and local governments, and the many indirect subsidies that account for a large part of the cost of the system. In fact, governments in the United States spend directly or indirectly roughly $50 billion a year on low-income housing programs. So they spend substantially more on housing subsidies to the poor than on other better-known parts of the welfare system such as Food Stamps and TANF.

The purpose of this paper is to describe the major shortcomings of the current system of low-income rental housing assistance and how these shortcomings can be remedied without spending more money. The most serious shortcomings of the current system are its excessive reliance on unit-based programs that serve about two thirds of assisted households and its failure to provide housing assistance to all of the poorest eligible families who ask for help. Evidence indicates that tenant-based housing vouchers have a much lower total cost than any program of unit-based assistance for providing equally good housing. Therefore, it would be possible to serve current recipients equally well (that is, provide them with equally good housing for the same rent), serve many additional families, and reduce taxes by shifting resources from unit-based to tenant-based assistance. This would involve terminating or phasing out current production programs, disengaging from unit-based assistance to existing apartments as soon as current contractual commitments permit, and avoiding new programs of unit-based assistance. The savings from these actions would make it possible to create an entitlement housing assistance program serving millions of additional households without spending more money, thereby avoiding the inequity of providing assistance to some households and denying it to others with the same characteristics.

The paper is organized as follows. Section 2 provides a brief overview of the current system of low-income housing assistance. Section 3 summarizes the most important evidence on the performance of different rental housing programs, namely, evidence on cost-effectiveness. Section 4 discusses the other major advantage of tenant-based housing assistance, specifically, the wide range of choice that it offers to recipients. Section 5 addresses the main objections to exclusive reliance on tenant-based assistance. Section 6 describes concrete proposals for phasing out unit-based housing assistance. Section 7 argues that taxpayer preferences call for an entitlement housing assistance program for the poorest families. Section 8 shows how this can be achieved without spending more money. Section 9 summarizes the paper.

2. Overview of Current System of Low-Income Housing Assistance

The U.S. government provides assistance to live in rental and owner-occupied housing.[1] The most important distinction between rental housing programs is whether the subsidy is attached to the dwelling unit or the assisted household. If the subsidy is attached to a rental dwelling unit, each family must accept the particular unit offered in order to

[1] See Olsen (2003, pp. 370-394) for a more detailed description of the system of low-income rental housing programs. Olsen (2007) provides a more detailed account of homeownership programs that serve low-income households.

receive assistance and loses the subsidy when it moves. Each family offered tenant-based rental assistance has a choice among many units that meet the program's standards, and the family can retain its subsidy when it moves. The analogous distinction for homeownership programs is between programs that both authorize selected developers to build a limited number of houses to sell to eligible families of their choosing and require eligible families to buy from these builders in order to receive a subsidy, and programs that provide subsidies to eligible families that are free to buy from any seller.

Unit-based rental assistance is the dominant form of direct federal housing assistance to low-income families. The overwhelming majority of recipients receive rental assistance, and more than 70 percent of families served by low-income rental housing programs receive unit-based assistance. HUD provides unit-based rental assistance to about 2.7 million families, Low-Income Housing Tax Credit projects house about 1.6 million families, and the USDA's Section 515/521 and HUD's HOME block grant program each serve almost a half million families in subsidized projects. HUD's Section 8 Housing Voucher Program that accounts for almost all tenant-based rental housing assistance in the United States serves about 2 million households.

3. Evidence on Cost-Effectiveness of Different Housing Programs

The most important finding of the empirical literature on the performance of low-income housing programs from the viewpoint of housing policy is that tenant-based vouchers and certificates provide equally good housing at a much lower cost than any type of unit-based assistance.[2]

Four major studies have estimated both the cost per unit and the mean market rent of apartments provided by housing certificates and vouchers and the largest older production programs, namely Public Housing, Section 236, and Section 8 New Construction.[3] These studies are based on data from a wide variety of housing markets and for projects built in many different years. Two were expensive studies conducted for HUD by a respected research firm during the Nixon, Ford, Carter, and Reagan administrations. They are unanimous in finding that housing certificates and vouchers provide equally desirable housing at a much lower total cost than any of these production programs, even though all of these studies are biased in favor of the production programs to some extent by the omission of certain indirect costs.

Table 1 summarizes the results of these studies. The studies with the most detailed information about the characteristics of the housing provided by the programs found the largest excess costs for the production programs. Specifically, Mayo et al. (1980) estimated the excessive cost of public housing compared to housing vouchers for providing equally desirable housing to be 64% and 91% in the two cities studied and the excessive cost of Section 236 to be 35% and 75% in these two cities. Another study with excellent data on housing characteristics estimated the excessive cost of Section 8 New

[2] See Olsen (2003, pp. 399-427) for a summary of the evidence on other aspects of program performance.
[3] The studies are Mayo et al. (1980), Olsen and Barton (1983), U.S. Department of Housing and Urban Development (1974), and Wallace et al. (1981). Olsen (2000) provides a description and critical appraisal of the data and methods used in these studies as well as a summary of their results.

Construction compared to tenant-based Section 8 Certificates to be between 44% and 78% [Wallace et al., 1981].[4]

Recent GAO studies produced similar results for the major active construction programs – LIHTC, HOPE VI, Section 202, Section 515, and Section 811. Table 2 reports results based on the conceptually preferable life cycle approach.[5] The excess total cost estimates range from 12% for Section 811 to 27% for HOPE VI [GAO, 2001, p. 3]. These estimates are lower bounds on the excessive cost because some costs of the production programs were omitted. Most notably, the opportunity cost of the land and cost of preparing the site were omitted from the cost of HOPE VI projects. These are real costs to society of HOPE VI redevelopment. More generally, some costs of each production program were omitted. For example, all HOPE VI projects and some projects under each other program receive local property tax abatements. The preceding results ignore this cost to local taxpayers. Some projects are built on land sold to the developer by a government at a below-market price.

It is often argued that production programs work better than tenant-based vouchers in the tightest housing markets. The GAO study contains evidence concerning

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[4] This study made predictions of the market rents of subsidized units based on two different data sets containing information on the rent and characteristics of unsubsidized units. The study did not collect information on the indirect costs of the Section 8 New Construction Program. These indirect subsidies included GNMA Tandem Plan interest subsidies for FHA insured projects and the forgone tax revenue due to the tax-exempt status of interest on the bonds used to finance SHFA projects. Based on previous studies, the authors argue that these indirect costs would add 20 to 30 percent to the total cost of the Section 8 New Construction Program. The range of estimates reported in the text is based on the four combinations of the two predictions of market rent and the lower and upper limits on the indirect costs. Using cruder methods that do not account as well for differences in the condition and amenities of the housing, Shroder and Reiger (2000) find similar results in a comparison of Section 8 certificates with Section 8 NC/SR projects that have been in existence for 15 to 20 years.

[5] The GAO study also reports first-year excess costs of the production programs. The first-year cost of a production program is the sum of the annualized development subsidies and the tenant rent and other government subsidies during the first year of operation. The GAO estimates of excess cost of production programs based on this method are much higher than estimates based on the life-cycle approach. Olsen (2000, pp. 18-21) explains the shortcomings of first-year-cost methodology and how this approach can bias the results in either direction.

whether production programs are more cost-effective than tenant-based vouchers in housing markets with low vacancy rates. In addition to the national estimates, the GAO produced estimates for seven metropolitan areas. The data for the GAO study refer to projects built in 1999. In that year, the rental vacancy rates in the seven metropolitan areas ranged from 3.1% in Boston to 7.2% in Baltimore and Dallas, with a median of 5.6%. The overall rental vacancy rate in U.S. metropolitan areas was 7.8%. So all of the specific markets studied were tighter than average. Only five of the largest seventy-five metropolitan areas had vacancy rates lower than Boston's. In each market, tenant-based vouchers were more cost-effective than each production program studied. Table 3 reports the results for Tax Credit Program. The results for Section 202 and 811 are similar [GAO, 2002, pp.19-20].

Unlike the earlier cost-effectiveness studies, the GAO study did not compare the total cost of dwellings under the different programs that were the same with respect to many characteristics. Instead it simply compared the average cost of dwellings with the same number of bedrooms in the same metropolitan area or the same type of location (metropolitan or nonmetropolitan). This has led to the criticism that the results overstate the excessive costs of the production programs for providing equally desirable housing because these programs provide better housing than the units occupied by voucher recipients.

No evidence on this matter exists for active production programs. However, evidence from earlier construction programs casts doubt on this view. Although it is true that units in recently completed projects under construction programs have typically been better than units occupied by households with certificates and vouchers, the existing evidence suggests that this difference is not great. Furthermore, the relevant quality of the housing under a construction program is not its quality when it is new but rather the average quality of housing provided over the time that the project serves assisted households. This quality typically declines over the life of a subsidized project. The existing evidence suggests that well before the units in subsidized projects reach the midpoint of their service to assisted households, they provide housing worse than the housing occupied by recipients of tenant-based vouchers and certificates.

Results from a number of previous studies illustrate these general points. Mayo et al. (1980) estimated the market rents of units under several housing programs in Pittsburgh and Phoenix in 1975 based on data on the market rent and numerous characteristics of unsubsidized units and their neighborhoods. Table 4 reports the results. The public housing units involved were built between 1952 and 1974. Therefore, none of these units were more than 23 years old in 1975. Since public housing units typically remain in service for more than 50 years, none of these units had reached the midpoint of their useful lives. Table 4 indicates that these public housing units were no better than the units occupied by recipients of housing allowances. The Section 236 units were built between 1969 and 1975. So, none of these units were more than a few years old at the time. Table 4 indicates that Section 236 units were not enormously better than the units occupied by recipients of housing allowances even when they were quite new.

Wallace et al. (1981) used similar methods and data to estimate the market rents of randomly selected Section 8 Existing and New Construction units in 16 randomly selected metropolitan areas in 1979. Although none of the units under the Section 8 New Construction Program were more than a few years old at that time, the difference in the mean market rents of units under the two programs was less than 10 percent, namely $291 per month for Section 8 New and $265 for Section 8 Existing.

David Vandenbroucke's (U.S. Department of Housing and Urban Development, Office of Policy Development and Research) unpublished tabulations based on the 1991 American Housing Survey Metropolitan Sample paint a similar picture. He too estimated separate statistical relationships between market rent and numerous characteristics of unsubsidized units and their neighborhoods in a number of metropolitan areas and then used these relationships to predict the market rents of public housing units, units in privately owned HUD-subsidized projects, and units occupied by certificate and voucher holders. Table 5 reports the results. In eight of eleven metropolitan areas, the median market rents of the units occupied by recipients of certificates and vouchers was greater than the median market rents of units in public and privately owned HUD-subsidized projects. Vandenbroucke did not report the median age of the units of each type in his sample. However, the median age of public housing units in the United States in 1991 was about 23 years and the median age of the units in privately owned subsidized projects was about 14 years. So, it is plausible to believe the majority of public housing units in his sample had not reached the midpoint of their service to assisted households and the majority of privately owned projects were much younger.

In short, the available evidence does not support the view that the GAO study understated the cost-effectiveness of the production programs because these programs provide better housing than tenant-based vouchers on average over the lives of subsidized projects. Indeed, it suggests the opposite.

The GAO study will not be the last word on the cost-effectiveness of the programs studied. Improvements in its implementation of the life-cycle methodology are possible and desirable. A more careful analysis that captures all of the subsidies associated with each program and accounts for the differences in the housing services provided is long overdue. However, at the moment, the GAO study provides the only independent cost-effectiveness analysis of active production programs.

The difference in cost-effectiveness between tenant-based and unit-based housing assistance has major implications for the number of households that can be served with the current budget. If we compare programs of tenant-based and unit-based assistance that serve recipients equally well (that is, provides them with equally good housing for the same rent), the unit-based programs will serve many fewer families with a given budget. No credible evidence shows that any type of unit-based assistance is as cost-effective as tenant-based vouchers in any market conditions or for any special groups. Therefore, many eligible families and the taxpayers who want to help them will gain if tenant-based assistance replaces unit-based assistance.

The magnitude of the gain from shifting from unit-based to tenant-based rental assistance would be substantial. Even the smallest estimates of the excess costs of unit-based assistance imply that shifting ten families from unit-based to tenant-based assistance would enable us to serve two additional families. Since the federal government provides unit-based rental housing assistance to more than five million families, a total shift from unit-based to tenant-based assistance would enable us to serve at least a million additional families with no additional budget. The most reliable estimates in the literature imply much larger increases in the number of families served.

For example, the results in Wallace et al. (1981) imply that tenant-based vouchers could have provided all of the families who participated in the Section 8 New Construction Program with equally good housing for the same rent and served at least 72 percent more families with similar characteristics equally well without any additional budget. A preliminary analysis of the effect on program participation of replacing HUD's low-income housing programs with an entitlement housing voucher program that has the same cost to taxpayers indicates that the voucher program would serve an additional 2.2 million families [Olsen and Tebbs, 2006].

4. Other Major Advantage of Tenant-Based Housing Assistance

Tenant-based assistance has another major advantage over unit-based assistance in addition to providing equally desirable housing at a lower cost. It allows each recipient to occupy a dwelling unit with a combination of characteristics preferred to the specific unit offered under a program of unit-based assistance, without affecting adversely taxpayer interests. With tenant-based assistance, a recipient can occupy any unit meeting the program's minimum housing standards. The program's standards reflect the interests of taxpayers who want to insure that low-income families live in housing meeting certain minimum standards. Units that meet the program's standards and are affordable to assisted families differ greatly with respect to their size, condition, amenities, neighborhood, and location. Assisted families whose options are the same under a program of tenant-based assistance are not indifferent among the units available to them. Each family will choose the best available option for their tastes and circumstances. Since all of these units are adequate as judged by the program's minimum housing standards, restricting their choice further serves no public purpose. Unit-based assistance forces each family to live in a particular unit in order to receive a subsidy. So it greatly restricts recipient choice among units meeting minimum housing standards without serving any public purpose. If the amount of the subsidy is the same, it is reasonable to expect that recipients prefer tenant-based to unit-based assistance.

5. Objections to Exclusive Reliance on Tenant-Based Assistance

Tenant-based rental assistance has outperformed every program of unit-based assistance, namely, it provides equally desirable housing at a much lower total cost, it produces significantly better outcomes in certain other respects, and it is not perceptibly worse in any respect. This makes a strong case for exclusive reliance on tenant-based assistance.

Two main objections have been raised to this reform. Specifically, it has been argued that tenant-based assistance will not work in markets with the lowest vacancy rates and construction programs have an advantage compared with tenant-based assistance that offsets their cost-ineffectiveness, namely they promote neighborhood revitalization to a much greater extent. The evidence supports neither view.

Taken literally, the first argument is clearly incorrect in that Section 8 Certificates and Vouchers have been used continuously in all housing markets for almost three decades. One more precise version of this argument is that tenant-based assistance will not work well in some markets because these markets do not have enough affordable vacant apartments that meet minimum housing standards to house all additional families offered vouchers. The conceptual defects of this argument are easy to understand, and it is inconsistent with the empirical evidence.

All vouchers authorized in a locality can be used even if the number of vacant apartments that meet minimum housing standards and are affordable to voucher recipients is less than the number of new and recycled vouchers available. Many families offered vouchers already occupy apartments meeting the program's standards. We do not need vacant apartments for these families. They can participate without moving. In the absence of assistance, these recipients often devote a high fraction of their income to housing and skimp on other goods. The housing voucher reduces their rent burden. Other families who are offered vouchers live in housing that does not meet Section 8 standards. However, these apartments can be repaired to meet the standards. Similarly, vacant apartments that do not initially meet the program's standards can be upgraded to meet them. In short, we do not need new construction to increase the supply of apartments meeting minimum housing standards.

The evidence shows that these are not theoretical curiosities. The tenant-based Section 8 Certificate and Voucher Programs have substantially increased the supply of affordable housing meeting minimum housing standards. One detailed analysis is based on data from a national random sample of 33 public housing authorities in 1993 [Kennedy and Finkel, 1994]. Thirty percent of all recipients outside of New York City continued to live in the apartments that they occupied prior to participating in the program [Kennedy and Finkel, p.15].[6] Forty one percent of these apartments already met the program's standards and 59% were repaired to meet the standards [Kennedy and Finkel, p.83]. About 70% of all recipients outside of New York City moved to a new unit. About 48% of these apartments were repaired to meet the program's standards [Kennedy and Finkel, p.84]. The rest moved to vacant apartments that already met the

[6] The authors analyzed New York City separately from the other housing authorities.

standards. Therefore, the apartments occupied by about half of the families that received certificates and vouchers outside NYC during this period were repaired to meet the program's standards. The previously mentioned sources contain similar results for NYC. In this city, only 31 percent of the apartments occupied by recipients had to be repaired to meet the program's standards.

The Housing Assistance Supply Experiment of the Experimental Housing Allowance Program provides additional evidence on the ability of tenant-based vouchers to increase the supply of apartments meeting minimum housing standards even in tight housing markets. The Supply Experiment involved operating an entitlement housing allowance program for ten years in St. Joseph County, Indiana (which contains South Bend) and Brown County, Wisconsin (which contains Green Bay). These were smaller than average metropolitan areas with populations of about 235,000 and 175,000 people, respectively. The general structure of the housing allowance program in the Supply Experiment was the same as the Section 8 Voucher Program that HUD operated from 1983 until its merger with the new Housing Choice Voucher Program, except that homeowners were eligible to participate in the Supply Experiment. About 20 percent of the families in the two counties were eligible to receive assistance [Lowry, 1983, pp. 92-93]. By the end of the third year when participation rates leveled off, about 41 percent of eligible renters and 27 percent of eligible homeowners were receiving housing assistance [Lowry, 1983, pp.24-25].

The Supply Experiment sites were chosen to differ greatly in their vacancy rates in order to determine whether the outcomes of an entitlement housing allowance program depend importantly on this factor. At the outset of the Supply Experiment, the vacancy rates in Brown and St. Joseph County were 5.1% and 10.6% [Lowry, 1983, p. 53]. So the average vacancy rate in the two sites was almost exactly the average vacancy rate in 2000 for U.S. metropolitan areas (7.7%). In 2000, only 26% of the 75 largest metropolitan areas had vacancy rates less than the vacancy rate in Brown County at the outset of the experiment and 20% had vacancy rates greater than the vacancy rate in St. Joseph County. The participation rate differed little between the two sites. Indeed, it was higher in the locality with the lower vacancy rate [Lowry, 1983, p.122].

Data for analysis was collected during the first five years of the experiment in each site. During that period, about 11,000 dwellings were repaired or improved to meet program standards entirely in response to tenant-based assistance and about 5,000 families improved their housing by moving into apartments already meeting these standards [Lowry, 1983, p. 24]. The former represented more than a nine percent increase in the supply of apartments meeting minimum housing standards. Tenant-based assistance alone produced a greater percentage increase in the supply of adequate housing in these localities in five years than all of the federal government's production programs for low-income families have produced in the past 65 years [Cutts and Olsen, 2002, p. 232]. The annual cost per household was less than $3000 in today's prices.

We do not need production programs to increase the supply of apartments meeting minimum housing standards. The Experimental Housing Allowance Program demonstrated beyond any doubt that the supply of apartments meeting minimum housing standards can be increased rapidly by upgrading the existing stock of housing even in tight markets. This happened without any rehabilitation grants to suppliers. It happened entirely in response to tenant-based assistance that required families to live in apartments meeting the program's standards in order to receive the subsidy.

Some argue that the low success rates in the Section 8 Housing Voucher Program in areas with low vacancy rates implies that the available vouchers cannot be used in these areas and hence new construction must be subsidized in order to serve additional low-income households.

In discussing this matter, it is important to distinguish between a housing authority's so-called success rate and its voucher utilization rate. An authority's success rate is the percentage of the families authorized to search for a unit that occupy a unit meeting the program's standards within the housing authority's time limit. Its utilization rate is the fraction of all vouchers in use.

An authority's success rate depends on many factors including the local vacancy rate. One careful study of success rates [Kennedy and Finkel, 1994] indicates that among localities that are the same with respect to other factors those with the lowest vacancy rates have the lowest success rates. Obviously, it is more difficult to locate a suitable unit when the vacancy rate is low.

An authority's success rate bears no necessary relationship to the fraction of the authority's vouchers in use at any point in time. No matter what an authority's success rate, the authority can fully use the vouchers allocated to it by authorizing more families to search for apartments than the number of vouchers available or the number that can be supported with its voucher budget. For example, if an authority has a success rate of 50 percent, authorizing twice as many families to search as the number of vouchers available will result in full utilization of the vouchers on average. If each housing authority adjusted its issuance of vouchers to its success rate in this manner, some authorities would exceed their budget and others would fall short in a given year. However, the national average success rate would be very close to 100 percent.

For many years, public housing authorities have over-issued vouchers and thereby achieved high usage rates despite low success rates. By over-issuing vouchers early in the year and adjusting the recycling of the vouchers that are returned by families who leave the program late in the year, housing authorities are able to come close to using their voucher budget. Their ability to use the money allocated to them is further enhanced by federal regulations that allow housing authorities to exceed their voucher budgets in a given year by modest amounts using their reserves and borrowing against next year's allotment. According to HUD's Fiscal Year 2004 Performance and Accountability Report, the voucher utilization rate was 98.5 percent in that year.[7]

Although it is true that some families who are offered vouchers do not find housing that suits them and meets the program's standards within their housing authority's time limits, other eligible families in the same locality use these vouchers. This indicates clearly that the problem is not that there are no vacant apartments that meet program standards and are affordable to voucher recipients or apartments whose landlords are willing to upgrade them to meet program standards. In the tightest housing markets, these apartments are more difficult to locate. Unsubsidized families also have trouble locating apartments in tight housing markets.

[7] Although housing authorities could achieve a voucher utilization rate close to 100 percent each year by adjusting the extent to which they over-issue vouchers, they have not always done it. Like others, directors of housing authorities respond to incentives and disincentives. In recent years, they have faced disincentives that have led to lower voucher utilization rates. Sard (2006) analyzes the effect of proposed changes in federal regulations intended to induce housing authorities to use all of their vouchers.

The real issue is not whether tenant-based vouchers can be used in all market conditions but whether it would be better to use new construction or substantial rehabilitation programs in tight housing markets. Evidence from the GAO study mentioned earlier indicates that tenant-based vouchers are more cost-effective than production programs even in markets with low vacancy rates. Another key question is which type of assistance gets eligible families into satisfactory housing faster. If the choice is between authorizing additional vouchers or additional units under any construction program, the answer is clear. Tenant-based vouchers get families into satisfactory housing much faster than any construction program even in the tightest housing markets. By over-issuing vouchers, housing agencies can put all of their vouchers to use in less than a year in any market conditions. No production program can hope to match this speed.

The second major objection to the exclusive reliance on tenant-based assistance is that new construction promotes neighborhood revitalization to a much greater extent than tenant-based assistance. The evidence suggests that there is little difference between housing programs in this regard.

The evidence from the Experimental Housing Allowance Program is that even an entitlement housing voucher program will have modest effects on neighborhoods and the small literature on the Section 8 Voucher Program confirms these findings for a similar non-entitlement program [Lowry, 1983, pp. 205-217; Galster, Tatian, Smith, 1999B]. These programs result in the upgrading of many existing dwellings, but this is almost surely concentrated on their interiors.

It is plausible to believe that a new subsidized project built at low-density in a neighborhood with the worst housing and poorest families would make that neighborhood a more attractive place to live for some years after its construction. The issue is not, however, whether some construction projects lead to neighborhood upgrading. The issues are the magnitude of neighborhood upgrading across all projects under a program over the life of these projects, the identity of the beneficiaries of this upgrading, and the extent to which upgrading of one neighborhood leads to the deterioration of other neighborhoods.

The primary beneficiaries of neighborhood upgrading will be the owners of nearby properties. Since the majority of the poorest families are renters, it is plausible to believe that most of the housing units surrounding housing projects located in the poorest neighborhoods are rental. Therefore, if a newly built subsidized project makes the neighborhood a more attractive place to live, the owners of this rental housing will charge higher rents and the value of their property will be greater. Since the occupants of this rental housing could have lived in a nicer neighborhood prior to the project by paying a higher rent, they are hurt by its construction. The poor in the project's neighborhood will benefit from the neighborhood upgrading only to the extent that they own the property surrounding the project.

With the passage of time, the initial residents will leave the improved neighborhood and others who value a better neighborhood more highly will replace them. In short, housing programs involving new construction will shift the location of the worst neighborhoods to some extent. The aforementioned possibilities are rarely recognized in discussions of housing policy, let alone studied.

What has been studied is the extent to which projects under various housing programs affect the desirability of the neighborhood. If a housing project makes its neighborhood a better place to live, it will increase neighborhood property values. Most existing studies find small positive effects on neighborhood property values on average for some programs and small negative effects for others [Lee, Culhane, and Wachter, 1999; Galster, Smith, Tatian, and Santiago, 1999A, Chapter 4; Eriksen and Rosenthal, 2007]. Schwartz, Ellen, Voicu, and Schill (2006) is an exception. They conclude that a number of construction and rehabilitation programs in New York City have substantial positive effects on neighborhood property values. However, the weight of the evidence still favors the view that no federal housing program has substantial effects on neighborhood property values on average across all of its units.

In short, the usual objections to exclusive reliance on tenant-based vouchers have little merit. Tenant-based vouchers can be get recipients into adequate housing faster than production programs even in the tightest housing markets, and they are more cost-effective than production programs in all market conditions. We do not need production programs to increase the supply of adequate housing. Production programs have not had a perceptibly greater effect on neighborhood revitalization than tenant-based vouchers.

6. Proposals to Shift Budget from Unit-based to Tenant-Based Assistance

The available evidence on program performance has clear implications for housing policy reform. To serve the interests of taxpayers who want to help low-income families with their housing and the poorest families who have not been offered housing assistance, Congress should shift the budget for low-income housing assistance from unit-based to tenant-based housing assistance as soon as current contractual commitments permit and should not authorize any new programs involving unit-based assistance.

The Clinton Administration made detailed proposals to Congress to achieve this transition [HUD, 1995], and Senator Dole supported the general concept during his presidential campaign against President Clinton.[8] It is time to refine and act on these proposals. This section proposes some concrete steps to achieve the desired results.

First, the money currently spent on operating and modernization subsidies for public housing projects should be shifted gradually to provide tenant-based vouchers to public housing tenants. HUD provides housing authorities with about $7 billion each year in operating and modernization subsidies. This is about a fourth of the total HUD budget for low-income housing assistance. The evidence indicates that we can get more for this money by giving it to public housing tenants in the form of housing vouchers.

The Quality Housing and Work Responsibility Act of 1998 (QHWRA) made a small step in that direction. It mandated the conversion of public housing projects to tenant-based assistance under certain circumstances and allowed it under other circumstances. However, it did not go nearly far enough to realize large gains. The following proposal will achieve these large gains in an orderly fashion.

The proposal would allocate to each housing agency the same amount of federal money as it would have received in operating and modernization subsidies under the current system so that no housing agency can argue against the proposal on the grounds that it would have less to serve its clients. With one minor caveat, it would require every local housing agency to offer each current public housing tenant the option of a portable housing voucher or remaining in its current unit on the previous terms. The latter

[8] See Weicher (1997) for a detailed analysis of proposals for vouchering out unit-based assistance.

provision insures that no public housing tenant is harmed by the legislation. Families that accept a voucher would benefit from it. They would move to housing that they prefer to their public housing units. These vouchers would be funded from their current public housing budget. Housing agencies would be allowed to charge whatever rent the market will bear for the units vacated by families that accept the voucher offer, and sell any of their projects to the highest bidder. This would generate the maximum amount of money to operate and modernize their remaining projects. Since the devil is often in the details, I address some important details below.

The most important requirement of the proposal is that each housing agency must offer a housing voucher to each family currently living in a public housing project. The payment standards for families of each size (that is, the subsidy to a family with zero adjusted income) need not be the payment standards of the regular Section 8 Housing Choice Voucher Program.[9] To insure that housing authorities can pay for these proposed vouchers with the money available, payment standards for families of different sizes should be set to use housing agency's entire public housing budget in the highly unlikely event that all public housing tenants accepted vouchers. A set of payment standards that satisfies this criterion is easily calculated.

It is important to realize that this proposal would not lead to an immediate mass exodus from public housing. The results of the HUD-funded Moving to Opportunity for Fair Housing Demonstration Program (MTO) show that public housing projects would retain the majority of their tenants at least initially.[10] The families eligible to participate in the experiment lived in public housing projects in census tracts where the poverty rate

[9] The proposal does not affect the regular Section 8 Housing Choice Voucher Program.
[10] See Orr et al. (2003) for a description of the experiment and a summary of its results to date.

exceeded 40 percent prior to the experiment. Nationally, about 36 percent of public housing tenants live in neighborhoods with such high poverty rates (Newman and Schnare, 1997, Table 3). In MTO, there were two experimental groups and one control group. The experiment offered families assigned to the control group no alternative to their current circumstances. One experimental group was offered regular Section 8 housing vouchers. The other experimental group was offered Section 8 vouchers on the condition that the family must move to a neighborhood with a poverty rate less than 10 percent and remain there for at least a year. Only a third of the families in the projects involved signed up to participate in the experiment. About 62 percent of the families offered regular Section 8 vouchers as an alternative to staying in their public housing unit used the voucher and left public housing [Orr et al., 2003, p. 26]. This surely exceeds the fraction of all public housing tenants that would accept a regular Section 8 voucher because public housing tenants in lower poverty neighborhoods live in better neighborhoods. Public housing projects in better neighborhoods are probably also newer and provide better housing. If the payment standards for the proposed vouchers are less generous than regular Section 8 vouchers, the takeup rate would be lower for these vouchers.

The proposal would not require housing agencies to sell their projects beyond what will be required under the regulations implementing the relevant QHWRA provisions. However, it would allow them to sell any of their projects to the highest bidder, and many housing agencies would surely choose to sell their worst projects. With uniform vouchers offered across all of a housing agency's projects, it is reasonable to expect that the fraction of all public housing tenants that accept the vouchers would be greatest in the worst projects. These are the projects that would be the most expensive to renovate up to a specified quality level. They are the types of projects that have been demolished under the HOPE VI program and that Congress intended to voucher out under QHWRA. So the proposal is consistent with clear Congressional intent in this regard.

When a project is sold, the remaining tenants in that project would be offered the choice between vacant units in other public housing projects and a housing voucher.[11] The housing agency might be required to use some of the proceeds of the sale to provide each family that is required to move with relocation assistance. The rest of the sales proceeds could be used to improve the agency's other housing projects or offer housing vouchers to additional families on its waiting lists.

Each year some current public housing tenants that have not accepted the proposed vouchers will move from their units without these vouchers. For example, some will get jobs that pay so much that they are no longer eligible for housing assistance, some single mothers will get married and their household income will make them ineligible for housing assistance, and some will be offered a preferred unit in a private subsidized project or a regular Section 8 voucher. Public housing agencies should be required to offer the family at the top of its public housing waiting list the option of occupying the vacated unit on the standard terms or accepting one of the new housing

[11] This is a possible exception to the assertion that no tenants would be hurt by the proposal. Some tenants might want to remain in the projects that the housing authority decides to sell, even if the housing authority sells its worst projects, though some may later discover that they prefer their new housing to their current units. In practice, designing reforms that hurt no one is impossible. The losses to these tenants must be weighed against the gains to other tenants. It is difficult to justify renovating structures that reach a certain level of obsolescence and dilapidation, and the Congress has made a policy decision to tear down the worst public housing projects even if some tenants would like to remain in them. About 80,000 distressed public housing units have been torn down under HOPE VI, and others have been demolished with funding from other sources.

vouchers. These requirements will expand the choices of families who are offered housing assistance and insure that there is no reduction in the number of families subsidized.

If the family accepts the voucher, the housing authority would be free to charge the highest rent that the market would bear for the vacated unit. This will provide additional revenue to housing agencies without additional government subsidies and without reducing the number of assisted families. It will also make the housing agency's revenue depend in part on the desirability of the housing provided, thereby encouraging better maintenance of public housing units.

Each year some public housing tenants that used the proposed vouchers to leave their public housing units will give up these vouchers for the same reasons that some tenants leave public housing. A new voucher should be offered to a family on the public housing waiting list to replace each such family that leaves the program. This will insure that the tax money spent on public housing will continue to support at least as many families.

Under current law, occupancy of vacated public housing units would be limited to families eligible for low-income housing assistance. Given the socioeconomic characteristics of the families living in public housing and the condition, amenities, and locations of these projects, this restriction would surely have little impact. For a family of four, the upper income limit for eligibility is 80 percent of the local median income of all families. It is unlikely that many families with higher incomes would want to live in most existing public housing projects.

Current law also requires that at least 40 percent of new tenants of public housing projects have incomes less than limits based on 30 percent of the area's median income. This requirement might reduce the maximum rent that the housing agency can charge for its vacated units, but this does not affect the proposal in any fundamental way. Each housing agency would simply charge the highest rent that the market will bear for its vacated units subject to satisfying the income-targeting requirement. This would lead to the same income targeting as the current system.

To promote economic integration in public housing projects, Congress may want to eliminate the income targeting rules for families that pay market rents for public housing units. Indeed, it may want to eliminate upper income limits for these families. Under the proposal, the new occupants will receive no public subsidy, and so income targeting would serve no public purpose. Eliminating these requirements would promote economic integration in public housing projects without reducing the number of families that receive housing assistance.

Offering the voucher option to all tenants requires additional administrative resources. The revenues generated by renting some units at market rates might be more than adequate for this purpose. However, the reforms would yield such large benefits to so many low-income families that they easily justify additional administrative fees from the federal government.

The preceding proposal would benefit many current public housing tenants without harming other public housing tenants and without greater cost to taxpayers. The public housing tenants that accept vouchers would obviously be better off because they could have stayed in their current units on the old terms. They would move to housing meeting HUD's housing standards that better suits their needs. Under this proposal, each housing agency would receive the same amount each year from the federal government as under the current system, and each would have the same assets, namely, the land and structures on which its projects are located. However, these assets would be better used, and the proposal would provide housing agencies with more money to better serve assisted families who remain in public housing. The additional money would come from selling projects and charging market rents for the units vacated by current public housing tenants. The proposal would greatly facilitate the sale of projects that are not worth renovating. The requirement that these projects must be sold to the highest bidder insures that the land and structures would be put to their highest valued use and maximizes the money available to help low-income families with their housing. It also avoids scandals associated with sweetheart deals. The dysfunctional public housing program of the twentieth century would wither, but public housing agencies would do a much better job in helping low-income families with their housing without spending any additional money.

The second broad proposal is that contracts with the owners of private subsidized projects should not be renewed. The initial agreements that led to the building or substantial rehabilitation of these projects called for their owners to provide housing meeting certain standards to households with particular characteristics at certain rents for a specified number of years. At the end of the use agreement, the government must decide whether to change the terms of the agreement and the private parties must decide whether to participate on these terms. A substantial number of projects have come to the end of their use agreement in recent years and many more will come to the end of their use agreements over the next decade. When use agreements are not renewed, current occupants are provided with other housing assistance, usually tenant-based vouchers. Up to this point, housing policy has leaned heavily in the direction of providing owners with a sufficient subsidy to induce them to continue to serve the low-income households in their projects. Instead we should give their tenants portable vouchers and force the owners to compete for their business.

It is important to realize that for-profit sponsors will not agree to extend the use agreement unless this provides at least as much profit as operating in the unsubsidized market. Since these subsidies are provided to selected private suppliers, the market mechanism does not insure that profits under the new use agreement will be driven down to market levels. If this is to be achieved at all, administrative mechanisms must be used. Administrative mechanisms can err in only one direction, namely, providing excess profits. If the owner is offered a lower profit than in the unsubsidized market, the owner will leave the program. We should leave the job of getting value for the money spent to the people who have the greatest incentive to do it, namely, the recipients of housing assistance.

Third, the construction of additional public or private projects should not be subsidized. This involves terminating or phasing out current production programs and avoiding new production programs.

HOPE VI has been HUD's major production program over the past decade. This is an initiative within the public housing program under which some of the worst public housing projects have been torn down and replaced by new housing built at lower density on the same site. This program is an improvement over traditional public housing in that it avoids concentrating the poorest families at high densities in projects. However, the GAO study reveals that it is highly cost-ineffective compared with tenant-based vouchers that also avoid these concentrations. Therefore, the money that would have been spent on HOPE VI is better allocated to the much more cost-effective Section 8 Housing Choice Voucher Program or added to the budget of each housing authority to operate its reformed public housing program.[12] This shift in the budget for housing assistance would allow us to provide all of the families that would have lived in HOPE VI projects with rental units meeting minimum housing standards and assist tens of thousands of additional families that would otherwise live in deplorable housing.

It might be argued that this recommendation ignores the positive effect of HOPE VI projects on their neighborhoods. HOPE VI projects are much more attractive than the housing projects that they replaced, the density of the housing is much lower, and families with higher incomes occupy some of the units built. Therefore, I would expect HOPE VI projects to make their neighborhoods more attractive places to live. However, the same beneficial effect on the neighborhood could surely be achieved at a small fraction of the cost of HOPE VI redevelopment. For example, the old public housing project could be torn down, some of its land devoted to public facilities such as parks, and the rest sold to the highest bidder. Many alternative uses of the land would surely improve the neighborhood as much as HOPE VI redevelopment and cost much less. The savings could be used to provide housing vouchers to a larger number of low-income households than were served by the old public housing project, let alone the HOPE VI redevelopment of that project. Selling much of the land to the highest bidder would

[12] This money could be divided among public housing authorities using a formula that accounts for the size of their public housing program and the ages of its units.

almost surely lead to private redevelopment that would improve the neighborhood, and this sale would generate additional revenue to provide vouchers to more households.

Finally, there should be no new production programs. Congress should reject the Administration's proposal for a tax credit to selected builders of housing for low-income homeowners modeled after the Low Income Housing Tax Credit.[13] It should also reject the Millennial Housing Commission's proposals to create new programs of unit-based assistance such as tax incentives to preserve and expand the stock of existing units providing unit-based assistance, a new rental production program with a 100 percent capital subsidy, and elimination of limits on the amounts of Mortgage Revenue Bonds that states can issue to finance low-income housing projects. For the same reason, the Congress should reject the National Housing Trust Fund Act of 2007 (H.R. 2895) until it is modified to direct the funds involved to tenant-based assistance. Launching a new construction program is particularly inappropriate when rental vacancy rates are at historic high levels.[14] Any additional money for housing assistance should be used to expand the Housing Choice Voucher Program.

7. Housing Assistance Should Be an Entitlement for the Poorest Eligible Families

Unlike other major means-tested transfer programs, housing assistance is not an entitlement despite its stated goal of "a decent home and suitable living environment for every American family" [Housing Act of 1949]. Millions of the poorest families are not offered any housing assistance, while a smaller number of equally poor families receive

[13] The Administration's American Dream Program to provide a part of the downpayment on a house for low-income families is not subject to the same criticisms. Since this program is well designed to benefit low-income families and increase their homeownership rate without creating other distortions, a good case can be made for it.

[14] See http://www.census.gov/hhes/www/housing/hvs/qtr307/q307tab1.html.

large subsidies. For example, an assisted family with one child and an adjusted annual income of $10,000 living in an area with the average Payment Standard would have received an annual housing subsidy of $6,600 from the Housing Choice Voucher Program in 2007 if it occupied an apartment renting for the Payment Standard. The majority of families with the same characteristics living in that locality would receive no subsidy from any low-income housing program. Furthermore, the majority of the poorest eligible families receive no assistance while many families with considerably greater income are assisted [Olsen and Tebbs, 2006, Tables 8 and 9]. The waiting lists of public housing authorities are long, would be much longer in many cases if they were open continuously for new applicants, and consist largely of families with extremely low incomes.

The non-entitlement nature of housing assistance is a historical accident. Because the first significant housing program for low-income households involved the construction of housing, it was not possible to make it an entitlement for any significant number of families. Building millions of public housing units over a short period of time was infeasible. The income limits for eligibility were not designed to be consistent with the amount of money that the Congress wanted to devote to housing assistance.

Now that vouchers are used to provide housing assistance, the impossibility of building enough units to serve an enormous number of families provides no justification for maintaining a non-entitlement program. Almost all families eligible for housing assistance already live in housing. The majority of these units already meet housing standards. Other vacant units meeting housing standards are available. Many units can be inexpensively upgraded to meet housing standards. New construction is not needed to provide adequate housing for all of the poorest families who would want to participate in the entitlement housing program that could be funded with the current budget for housing assistance.

No one has attempted to explain why we should offer assistance to some, but not other, families with the same characteristics, and no one has provided a persuasive argument for denying assistance to the poorest families while providing it to otherwise identical families in the same locality whose income is many times as large.[15] It is difficult to reconcile these features of the Housing Choice Voucher Program and all other low-income housing programs with plausible taxpayer preferences.

In thinking about whether housing assistance should be an entitlement, it is helpful to think about how a taxpayer who wants to help low-income families with their housing feels about dividing a fixed amount of assistance between two families that are identical in his or her eyes. Surely, few would give the entire amount to one person and nothing to the other. Almost everyone would divide the money equally between two families that are identical in all respects.

Another strong argument for an entitlement housing assistance program for the poorest individuals and families is its effect on homelessness. The homeless are the poorest of the poor. An entitlement program of housing assistance for the poorest individuals and families would eliminate homelessness except for the chronic homeless who suffer from serious mental illness and substance abuse [Early and Olsen, 2002]. The

[15] It is often argued that we should not limit assistance to the poorest families because it is desirable to avoid concentrations of the poorest families in subsidized housing projects. Obviously, this argument is not applicable to tenant-based assistance. Families with housing vouchers are very dispersed. Indeed, more than 80 percent of all census tracts in the 50 largest metropolitan areas have at least one voucher recipient (Devine et al., 2003, p. 10). The conflict between the desire to serve the poorest families and to avoid concentrating them in projects in programs of unit-based assistance can be avoided by vouchering out these programs.

results of the recently completed Welfare to Work Voucher Experiment provide further evidence of the power of housing vouchers to address homelessness [Mills et al., 2006]. Housing vouchers have also proven extremely effective in getting the chronic homeless off the streets, though this requires a proactive approach to reach these people.

To say that housing assistance should be an entitlement for the poorest families is not to say that they have a natural right to it. Although some people hold this view, many others who think that housing assistance should be an entitlement reject it. They believe that the poorest families are entitled to whatever assistance their fellow citizens are willing to provide. To favor an entitlement program of housing assistance is to reject the notion that we should provide assistance to one family and deny it to another family with the same characteristics. Time limits, work requirements, and subsidy formulas that provide greater subsidies to families with some labor earnings rather than no labor earnings are completely consistent with an entitlement housing assistance program. They simply specify what a family is entitled to.

8. Proposal to Create an Entitlement Program of Housing Assistance

The preceding argues strongly that a program of housing assistance should be an entitlement for the poorest families. The usual argument against making housing assistance an entitlement is that it would be too expensive. Those who make this argument seem to have in mind delivering housing assistance to all currently eligible families using the current mix of housing programs and the current rules for the tenant's contribution to rent. This would indeed increase the amount spent on housing assistance greatly, though this magnitude has not been estimated. However, we do not have to make more than 40 percent of the population eligible for low-income housing assistance, we can reduce the fraction of housing assistance delivered through programs that are cost-ineffective, and we can provide new recipients of housing assistance with smaller subsidies.[16] If we reduce the fraction of the population eligible for housing assistance, increase the fraction of families served by tenant-based assistance, and reduce the subsidy to new recipients under each housing program, the cost of an entitlement housing assistance program would be less than commonly assumed.

Indeed, it is easy to develop an entitlement housing assistance program with any level of cost desired. For example, we could achieve an entitlement housing assistance program within a reasonable time without spending any additional money by a simple change in the Housing Choice Voucher Program, namely, offering new recipients smaller subsidies. At current subsidy levels, there are many more families willing and able to use vouchers than can be funded with the current budget. As we reduce the subsidy at each income by the same amount for new recipients, the number of families who want to participate will decline and waiting lists will shrink. If we reduce subsidies sufficiently and adjust the number of families served so as to spend the same amount on the program, all families who want to participate on the terms offered will receive assistance. We will then have an entitlement housing assistance program for the poorest eligible families, thereby ameliorating the horizontal inequities of the current program. Since about 12 percent of voucher recipients leave the program each year, this transition will take about eight years.

[16] See U.S. Department of Housing and Urban Development (2000, Table A-1) for the fraction of households eligible for housing assistance.

In discussions of housing policy, a common objection to this proposal is that no one would be able to find housing meeting the program's standards with the lower subsidies. This objection is logically flawed. With current subsidy levels, many more people want to participate than can be served with the existing budget. If we reduce subsidy levels slightly, it will still be the case that more people want to participate than can be served. If we decrease the subsidy levels so much that no one wants to participate, we have decreased them more than the proposed amounts.

A more sophisticated argument against the proposal is that the poorest households will be unable to participate in the proposed program. The simple proposal above calls for reducing the guarantee under the Voucher Program (called the Payment Standard). This is the subsidy received by a household with no income. If the Payment Standard is less than the rent required to occupy a unit meeting the Program's minimum housing standards, then a household whose income and assistance from other sources is just sufficient to buy subsistence quantities of other goods would be unable to participate in the proposed voucher program.

Previous studies have shown that a considerable reduction in the payment standard could occur without precluding participation by the poorest of the poor. Olsen and Reeder (1983) and Cutts and Olsen (2002) find that the Payment Standard exceeds the market rent of units just meeting the Program's minimum housing standards in all of the many metropolitan areas and bedroom sizes studied. The median excess varied between 33 to 80 percent between 1975 and 1993. Although refined estimates have not been made with more recent data, a rough estimate is that the median excess over all combinations of metropolitan area and number of bedrooms was 68 percent in 2001 [Cutts and Olsen, 2002, pp. 224-225].

If the preceding proposal leads to a particularly low participation rate by the poorest households, this could be counteracted by a smaller reduction in the payment standard combined with an increase in the fraction of adjusted income that tenants are expected to contribute to their rent. This would result in a smaller decrease in the subsidies offered to the poorest households and a larger decrease for the richest eligible households. For a given program budget, this would yield a higher participation rate by the poorest of the poor and a lower participation rate by other eligible households.

To say that housing assistance should be an entitlement is not to say that it should be designed to insure that all eligible families participate. It is inevitable that the participation rate will be less than 100 percent in a well-designed entitlement housing assistance program. An entitlement housing assistance program should provide no subsidy to families with incomes at the upper limit for eligibility to avoid the inequity that results from offering families with incomes just below the upper income limit a higher standard of living than families with incomes just above it. This implies that families with incomes just above the income limit for eligibility will be eligible for small subsidies. In order to get this subsidy, they will have to occupy a unit meeting particular housing standards, spend time filling out paperwork and dealing with program administrators, and reveal personal information. These are all inherent in operating a means-tested housing program. Furthermore, few enjoy accepting public or private charity. For all of these reasons, many families will choose not to participate in an entitlement housing assistance program.

A popular view is that many families offered vouchers do not participate because there are no vacant units meeting the program's standards in the area. Although market conditions play some role in program participation, the factors mentioned in the preceding paragraph are more important. The participation rate in the food stamp program has been about 60 percent in recent years [Castner and Shirm, 2004]. This is not because eligible families could not find a grocery store or because there was no food on the shelves of grocery stores.

What would be the participation rate in an entitlement housing program? The participation rate was much less than 50 percent in the entitlement housing assistance programs operated in the 1970s in Green Bay and South Bend as a part of the Experimental Housing Allowance Program. However, this is not to say that the participation rate in any entitlement housing assistance program would be less than 50 percent. The evidence from the Experiment indicates clearly that participation depends on the generosity of the subsidy and the program's minimum housing standards. The average annual subsidy in the sites where the entitlement programs were operated was about $3000 in today's prices. The average annual subsidy in the Housing Choice Voucher Program exceeds $6000. These numbers are not entirely comparable because the experiment was conducted in smaller than average metropolitan areas where housing prices were lower than average. Nevertheless, we should expect a higher participation rate with the current subsidy schedule of the Housing Choice Voucher Program.

9. Conclusion

Given the current economic slowdown, the added expense of fighting international terrorism and the impending rapid growth in the Social Security and Medicare programs, it is clear that little additional money will be available for housing assistance over the next few years. The question is: How can we continue to serve current recipients equally well and serve some of the poorest families who have not yet been offered assistance without spending more money? The answer is that we must use the money available more wisely.

Research on the effects of housing programs provides clear guidance on this matter. It shows that we can serve current recipients equally well (that is, provide them with equally good housing for the same rent) and serve many additional families without any increase in the budget by shifting resources from unit-based to tenant-based assistance. We should learn from our past mistakes and not heed the call for new production programs. Indeed, we should go further and terminate current production programs and disengage from unit-based assistance to existing apartments as soon as current contractual commitments permit.

The stated goal of the Housing Act of 1949 is "a decent home and suitable living environment for every American family." It is time that we delivered on that commitment. Contrary to popular opinion, this does not require spending more money on housing assistance. It can be achieved without additional funds by transferring funds from less cost-effective methods for delivering housing assistance to the most cost-effective approach and providing smaller subsidies to new recipients of housing assistance than received by current recipients.

In assessing the political feasibility of the type of fundamental reform considered in this paper, it is important to realize that this reform need not be implemented overnight. A politically feasible reform would involve a transition that does not harm, or even benefits, the overwhelming majority of current recipients of low-income housing assistance. For example, public housing tenants could be offered a choice between housing vouchers and staying in their current units on the same terms. This will benefit some without hurting others. Current recipients of Section 8 vouchers could be allowed to receive the generous subsidies that are now offered by the program while new recipients receive less generous subsidies so that more households can be served. Reform must also honor legal commitments. For example, payments on current terms will be provided to owners of private subsidized projects until the end of their use agreements. Occupants of these projects will not be offered vouchers until that time, and they might be provided with relocation assistance if they decide to move.

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TABLE 1

Excess Cost of Older Production Programs

Program/Study	Localities	Projects Built	Excess Cost
Public Housing			
Olsen and Barton	NYC	1937-1965	14%
Olsen and Barton	NYC	1937-1968	10%
HUD	Baltimore, Boston, L.A., St. Louis, S.F., D.C.	1953-1970	17%
Mayo et al.	Phoenix	1952-1974	64%
Mayo et al.	Pittsburgh	1952-1974	91%
Section 236			
Mayo et al.	Phœnix	1969-1975	35%
Mayo et al.	Pittsburgh	1969-1975	75%
Section 8 NC/SR			
Wallace et al.	National	1979	44%-78%

TABLE 2

Excess Cost of Active Production Programs
(GAO, 2001, Life Cycle Approach)

Program	Excess Cost
Low-Income Housing Tax Credit	16%
Hope VI	27%
Section 202	19%
Section 811	12%
Section 515	25%

TABLE 3

Excess Cost of Tax Credits in Markets with Different Vacancy Rates (GAO, 2002, Life Cycle Approach)

Metropolitan Area	Vacancy Rate	One Bedroom	Two Bedroom
Baltimore	7.2%	24%	24%
Boston	3.1%	6%	19%
Chicago	6.5%	34%	25%
Dallas/Fort Worth	7.2%	21%	21%
Denver	5.6%	40%	21%
Los Angeles	5.1%	11%	21%
New York	4.7%	21%	17%
All Metro Areas	7.8%	19%	14%

TABLE 4

Market Rents of Units under Production Programs in Their Early Years Compared with Voucher Units

	Program		
City	Section 236	Public Housing	Housing Allowance
Pittsburgh	$1826	$1748	$1626
Phoenix	$2417	$1918	$2084

TABLE 5

Median Monthly Market Rents of Subsidized Units (1991)

	Program		
City	Voucher and Certificate	Privately Owned Projects	Public Housing
Atlanta	$505	$400	$328
Baltimore	$460	$458	$373
Chicago	$475	$550	$440
Columbus	$375	$395	$340
Hartford	$593	$570	$543
Houston	$365	$325	NA
New York	$605	$578	$520
Newark	$568	$570	$500
San Diego	$480	$410	NA
Seattle	$475	$455	$445
St. Louis	$403	$378	$380

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"Oversight of HUD and Its Fiscal Year 2009 Budget"

U.S. Senate Committee on Banking, Housing, and Urban Affairs

March 12, 2008

Testimony by Barbara Sard, Director of Housing Policy

I am Barbara Sard, director of housing policy for the Center on Budget and Policy Priorities. The Center is an independent, nonprofit policy institute that conducts research and analysis on a range of federal and state policy issues, with particular emphasis on fiscal policies and policies affecting low and moderate-income families. We receive no government grants or contracts and are funded by foundations and individual donors.

My testimony today will focus on three areas: 1) overall shortfalls in the proposed HUD budget for fiscal year 2009; 2) the impact of the budget on the Section 8 Housing Choice Voucher program; and 3) other impacts on key programs that assist low-income families, elderly individuals and persons with disabilities.

Congress Needs to Add $6.5 Billion to Administration's Request to Avoid Cuts In Assistance for Low-Income Families

Last year, Congress rejected deep cuts the Administration proposed in affordable housing and community development programs and funded the Department of Housing and Urban

Development at $2.1 billion above the Administration's budget request for 2008. For 2009, Congress will have to provide a substantially larger increase — totaling $6.5 billion above the Administration's request — to avoid cuts in core programs that help millions of low-income families secure decent housing at affordable rents. There are two primary reasons why.

First, Congress can no longer rely on large recaptures of unspent funds from the "Section 8" programs to finance HUD programs. For most of the past decade, Congress and the Administration have used roughly *$2 billion per year* in unspent balances in Section 8 program accounts to help finance the current costs of HUD programs, thereby reducing the amount of new funding required. Such large recaptures will not be available in 2009 (and probably not in subsequent years, either). As a result, Congress will have to provide an increase of $2 billion in budget authority in 2009 simply to maintain funding for HUD programs at the nominal (pre-inflation) 2008 levels.

Second, the President's budget fails to provide funding increases in HUD's three main rental assistance programs needed to prevent cuts in assistance to low-income families now being served. More specifically:

- **The renewal of Housing Choice vouchers for 2 million low-income families will cost $15.5 billion in 2009, according to Center estimates, which is $868 million above the 2008 funding level and $1.3 billion above the President's 2009 request.** Under the President's budget, at least 100,000 housing vouchers being used by low-income families this year would *not* be renewed. (For data showing the state-by-state impact of these cuts, see the Appendix.)

- **The Public Housing Operating Fund will require $5.120 billion in 2009, $920 million above the 2008 level and $820 million above the President's request, to provide state and local housing agencies with the operating subsidies they are due under HUD's own formula.** Deep underfunding of operating subsidies in recent years has resulted in the deterioration — and ultimately, the sale or demolition — of many public housing units. The loss of units can be expected to accelerate in 2009 unless progress is made in restoring funding to a sustainable level. (The Appendix includes a state-by-state breakdown of shortfalls in funding for public housing.)

- **The President's budget fails to address satisfactorily a one-time, multi-billion-dollar shortfall in the project-based rental assistance program, which risks the loss of thousands of affordable apartments.** Last year the Administration belatedly revealed a substantial shortfall in funding for Section 8 project-based rental assistance. (This program provides affordable housing to nearly 1.3 million low-income households, most of which contain someone who is elderly or has a disability.) Congress narrowed but did not eliminate the gap in its 2008 appropriations legislation. To close the gap and fully fund the program in 2009 — and thereby restore confidence in the program's financial reliability among the property owners with whom HUD partners — Congress needs to provide an estimated $3.4 billion more for the renewal of Section 8 contracts than it provided in 2008 (or $2.4 billion more than the President requested for 2009).

Table 1 below shows how these shortfalls affect HUD's 2009 budget. Once the nearly $2 billion in prior-year funds that were available (and rescinded) in fiscal year 2008 but will not be available in 2009 are netted out of Congress' 2008 appropriation, the President's overall 2009 budget for HUD is *$885 million below* the nominal 2008 level (i.e., the 2008 level before adjusting for inflation). To avoid reducing the number of people assisted through the Housing Choice Voucher, public housing, and Section 8 project-based rental assistance programs, Congress will need to provide funding in 2009 that is $5.2 billion above the 2008 level. Finally, another $386 million is required to provide an inflation adjustment for the remaining HUD programs.

As a result, a total of $6.5 billion above the President's budget (or $7.5 billion above the 2008 level before adjustment for inflation) is needed simply to maintain current levels of service in HUD programs and to avert losses in housing assistance.

Shortfalls of this magnitude have few precedents among recent HUD budgets and would have sharp and painful effects. Moreover, these shortfalls would come at a time when affordable housing problems are growing among low-income families. HUD's analysis of recent Census data shows, for example, that the incidence of severe housing affordability problems among low-income families grew by nearly 20 percent from 2001 to 2005 (the latest year for which these data are available). Only one in four eligible low-income families receives federal housing assistance, a problem the Administration's budget proposal would worsen. And need now is increasing further as the economy deteriorates and unemployment and poverty rise.

The remainder of my testimony discusses the sources of the $6.5 billion shortfall in the Administration's budget in more detail.

Large Unspent Section 8 Balances No Longer Available to Replace New Appropriations

For many years, Congress and the Administration have relied on the recapture of large unspent balances from the Section 8 programs to finance HUD programs, thereby reducing the amount of new appropriations needed. From 2001 to 2007, an average of $2.1 billion in unspent Section 8 balances was recaptured every year and recycled in this way. Similarly, in 2008, Congress rescinded nearly $2 billion in recaptured Section 8 funds and thereby reduced the scored "cost" of the 2008 appropriations law by that amount.

TABLE 1
How Big is the Shortfall in the President's HUD Budget Request for 2009?

	Amounts in millions
STEP 1: Calculating the President's cut below the 2008 nominal level	
2008 appropriation[1]	*$37,636*
+ Funding to replace offsets from the 2008 bill that are no longer available[2]	*+$1,973*
= Total funding needed in 2009 to maintain 2008 nominal level	$39,609
President's request for 2009[3]	$38,724
Shortfall in President's budget compared to 2008 nominal level	***-$885***
STEP 2: Additional funds needed above the 2008 level to maintain assistance in the three major low-income programs (due to inflation and other factors)	
To avoid cuts in Housing Choice Vouchers[4]	$868
To restore full funding for the Public Housing Operating Fund[5]	$920
To fully renew Section 8 Project-Based Rental Assistance contracts[6]	$3,400
Total additional funding needed for these three programs	***$5,188***
STEP 3: Providing an inflation adjustment for other HUD programs[7]	***$386***
Total HUD funding shortfall under President's budget for 2009 (steps 1, 2, and 3)	**-$6,459**
Amount by which Congress exceeded the President's request in 2008[8]	*$2,065*

Yet for a number of reasons, such large amounts of recaptured Section 8 funds will not be available in 2009 and are unlikely to be available in subsequent years. As a result, the Administration and Congress will be required to provide new budget authority to cover costs that previously were financed with recaptured Section 8 funds. Some $2 billion in new budget authority will be required in fiscal year 2009 simply to sustain funding for programs at their 2008 levels, before adjustment for inflation.

Housing Vouchers for at Least 100,000 Low-Income Families Cut Under Bush Budget

The Housing Choice (or "Section 8") Voucher Program is the federal government's largest housing assistance programs for low-income families; approximately 2 million low-income families use vouchers to secure decent homes in the private market at rents they can afford. More than half of these families have children in the household. Nearly a third are headed by people who are elderly or have disabilities.

The voucher program also is widely regarded as one of the most successful housing programs. The Administration's budget describes it "as one of [HUD's] and the Federal Government's most effective programs" and notes that the program "is widely recognized as a cost-effective means for delivering decent, safe, and sanitary housing to low-income families."[9]

The Center estimates that $15.5 billion will be required to renew all vouchers in use in 2009, which is $868 million more than was provided for the program in 2008. (See the accompanying text box for an explanation of this estimate.) The Administration's budget, however, provides $14.16 billion for voucher renewals in 2009." This is $500 million below what Congress provided for 2008 and about $1.3 billion less than is needed to renew all vouchers in use.[10]

At least 100,000 housing vouchers in use by low-income families in 2008 would be cut under the President's budget request. Moreover, this figure may substantially understate the size of the cut that would occur. The Administration's budget includes a proposal to sharply cut back housing-agency funding reserves and to use large amounts of funding now held in these reserves to cover a portion of 2009 voucher renewal costs. As explained below, this deep cut in agency reserves would be ill-advised. If Congress rejects the proposed cut in reserves without providing additional funds to supplement the President's request, nearly 200,000 vouchers in use will be eliminated.

Proposed Cut in Reserves Would Harm Local Housing Agencies

Under the Administration's budget, each housing agency's renewal funding in 2009 would be based on the amount of funding the agency was eligible to receive in 2008, with adjustments for inflation, tenant-protection and incremental vouchers initiated in 2008, or commitments of project-based vouchers.[11] Each agency's renewal funding then would be *reduced*, however, by an amount equal to what the Administration calls the "unusable" portion of funds in the agency's reserve account at the end of fiscal year 2008. The budget does not define "unusable," but this term likely refers to the amount of voucher renewal funds that would remain if all of an agency's authorized vouchers were in use for the full year.

The budget assumes that $600 million in "unusable" reserve funds would be secured in this manner. For a large percentage of agencies, however, drawing down the entirety of their "unusable" reserves would leave them heavily exposed to fiscal instability or shortfalls if unexpected costs arosein subsequent months. We estimate that approximately 1,800 of the 2,400 agencies that administer vouchers will have what the Administration terms "unusable" reserves at the end of

Why Is an Increase of $868 Million Needed to Renew Housing Vouchers in 2009?

The Center estimates that $15.5 billion will be needed in 2009 to renew all vouchers in use, an increase of $868 million above the 2008 level. The need for an increase is driven primarily by two factors: inflation in rent and utility costs, and the fact that more vouchers will require renewal in 2009 than in 2008.

Housing cost inflation: Market rents and utility costs rise from year to year. Because vouchers cover the difference between the tenant's contribution (about 30 percent of his or her income) and housing costs, per-voucher costs rise each year roughly in proportion to the cost of housing (including basic utilities). Congress accounts for this inflation by directing HUD to apply an inflation adjustment as part of the formula used to determine each agency's annual renewal funding. The Center estimates that the average inflation adjustment (called HUD's Annual Adjustment Factor, or AAF) will be 4.1 percent in 2009, about the same as the 4.05 average AAF in 2008. Some $600 million will be needed in 2009 to cover such an inflation adjustment.

More vouchers requiring renewal: More vouchers will need to be renewed in 2009 than in 2008, for three reasons. First, HUD issues approximately 25,000 "tenant-protection" vouchers each year to replace affordable housing that has been lost for reasons such as the demolition or conversion of public housing units (or project-based section 8 units) to private-market use. For the initial year, these vouchers are funded out of a separate, dedicated account within the voucher program; in subsequent years, they are funded out of the general renewal account, thereby increasing the number of vouchers requiring renewal funding.

Second, Congress allocated $125 million in the 2008 appropriations law to provide initial-year funding for approximately 15,000 new, "incremental" vouchers. Some of these vouchers will require renewal funding in 2009.

Finally, following the sharp decline in voucher utilization from early 2004 through late 2006, when about 150,000 vouchers were lost, there are good reasons to expect that the number of families using vouchers will grow in 2008, on top of the growth caused by the new tenant-protection and incremental vouchers. This, too, means that more vouchers will require renewal funding in 2009. Funding increases provided by Congress in 2007 and 2008, combined with improved funding incentives for agencies to assist more families within their annual budgets, will result in a total of 75,000 more low-income families receiving voucher assistance in 2008, according to Center estimates. This increase reflects a voucher utilization rate of 95.6 percent in 2008, about four percentage points above the level in the third quarter of 2007 but still well below the peak of 98.5 percent in late 2003 and early 2004.

Adding these numbers up, we estimate that $148 million will be needed in 2009 to renew tenant-protection and incremental vouchers issued in 2008, and an additional $120 million in renewal funding will be required to reflect the increased number of families using vouchers. When added to the $600 million needed to cover rental inflation, this brings the total funding need for the voucher program to $868 million above the 2008 level.

2008. If these agencies are required to fully expend these reserves to renew vouchers in 2009, nearly 1,000 agencies will be left *without any reserves at all* in 2009, while an additional 320 agencies will be left with reserves totaling less than 5 percent of their annual funding allocation, a dangerously low amount.

In other words, nearly three-quarters of the housing agencies with "unusable" reserves would be left with few or no reserves in 2009. Rather than spend reserve funds down to such dangerously low levels, many agencies would likely reduce the number of families they serve — by removing vouchers from circulation over the course of the year as families left the program. Such an outcome would reverse some of the gains in voucher use achieved over the past two years as a result of improvements Congress has made in voucher-renewal funding policies.

Moreover, the proposal to eliminate "unusable" reserves would punish the highest-performing agencies — those that keep per-voucher costs low in order to serve as many families as they are authorized to. An agency that utilized all of its authorized vouchers in 2008 would face the choice of exhausting all of its funding reserves in order to renew its vouchers in 2009 or putting some vouchers "on the shelf" and serving fewer low-income families.

Proposed Change in Formula for Allocating Voucher Funds
Would Exacerbate Problems Caused by the Funding Shortfall

Still another problem is that the Administration's 2009 budget, like other recent Administration budgets, would use an inefficient method for allocating voucher-renewal funding among housing agencies. Under the budget, HUD would distribute renewal funding based on the amount of funding that each agency was eligible to receive in 2008, which, in turn, was based on each agency's vouchers in use in fiscal year 2007. This policy, which is similar to proposals rejected by Congress for 2007 and 2008, would deepen funding shortfalls among agencies and punish high-performing agencies that succeed in assisting more low-income families in 2008.

This formula is much less efficient than the "recent-cost" formula adopted by Congress in 2007 and 2008, under which each housing agency's share of renewal funding was based on actual voucher usage and costs during the most recent 12-month period. Because the formula that the Administration would use is markedly less efficient than the formula Congress adopted in 2007 and 2008, many agencies would experience even deeper funding shortfalls than those caused by the budget's inadequate funding levels alone.

For example, high-performing agencies that succeed in serving more families in 2008 than in 2007 would *not* receive the funding they would need to continue serving these families in 2009, because the proposed formula would ignore recent changes in voucher usage. Agencies that serve *fewer* families in 2008 than in 2007 would receive *more* funding than they need, for the same reason. A return to such a discredited funding formula policy would waste scarce funds while punishing high-performing agencies.

The triple blow caused by the reduction in voucher funding, the sharp reductions in agency reserves, and a funding formula not based on recent costs and voucher usage could discourage many agencies from fully using the funds available to them — and could thereby cause the number of vouchers lost to be even greater. For each of the past two years, Congress has wisely rejected the Administration's proposed funding formula and fully funded all vouchers in use. It should do so again.

Enactment of Section 8 Voucher Reform Act (SEVRA) Essential to Provide Predictable Renewal Funding Policy

Unfortunately, the Administration's budget proposal for the voucher program is once again creating uncertainty among local housing agencies. For example, based on the budget, HUD staff have advised housing agencies that if they use reserves in 2008 to serve more families — even with vouchers that the agencies have been authorized to administer — they will *not* receive renewal funding for the additional vouchers in 2009.

To provide the predictability needed to encourage agencies to serve the maximum number of families with available funds, the voucher renewal funding policy needs to be incorporated into the authorizing law and taken out of the arena of annual decision-making in the appropriations process. The Section 8 Voucher Reform Act (SEVRA), approved by the House last year by a wide bipartisan margin and just introduced in the Senate, would make this needed change. Enactment of SEVRA would improve the voucher program's performance. (The House bill is H.R. 1851; the Senate bill is S. 2684, sponsored by Chairman Dodd and cosponsored by Housing Subcommittee Chairman Schumer and Senators Reed, Menendez and Brown.)

Under SEVRA, each agency's renewal funding would be based on the cost of its vouchers in use in the previous year, and agencies would be allowed to retain unspent prior-year funds in an amount up to 12.5 percent of their annual funding in the first year after enactment of SEVRA. (Under the House version of SEVRA, the allowable reserve would fall to 5 percent in subsequent years. Under the Senate version, the allowable reserve level would shrink to 7.5 percent in the second year and to 5 percent in the third and subsequent years.) Like any business, a housing agency needs to have a modest reserve to meet its obligations in the face of unanticipated cost increases. It is important that the program's authorizing statute establish a clear reserve policy such as this in order to protect these funds for their intended purpose, rather than treating these funds as a pot that can be raided to close general budget shortfalls, as the Administration would do.

SEVRA also would incorporate into the U.S. Housing Act the requirement that HUD issue replacement vouchers for all public housing units that are demolished or sold and for all privately owned, HUD-assisted units that are converted to private-market use. Until 2005, HUD generally followed this full-replacement policy. However, HUD then discarded the policy. In the 2008 appropriations act, Congress reacted to HUD's abandonment of this policy by requiring replacement of all lost units that had been occupied within the prior 24 months. But the Administration's new budget proposes to scuttle the Congressional policy and to provide tenant-protection vouchers only for those units that still were occupied right up to the time they were demolished or converted, a standard that would lead to a significant further net loss of assisted housing units. (The Center estimates that since 1995, well over 100,000 public and privately assisted units have been lost and not been replaced by vouchers.)

Request Also Falls Short on Other Components of the Voucher Program

For the entire voucher account — including not just renewals but also new tenant-protection vouchers, Family Self Sufficiency program coordinators, administrative fees, and new incremental vouchers — the Administration's budget allocates $15.88 billion. This includes $150 million for tenant-protection vouchers to replace federally assisted housing that has been lost to such factors as demolition and private market conversion, $48 million for the Family Self Sufficiency Program, and $1.4 billion for administrative expenses. (See Table 2.)

TABLE 2			
	2008 Enacted (millions)	**2009 Bush Budget (millions)**	**Difference (millions)**
Housing Choice Vouchers (total)	**$16,391**	**$15,881**	**-$510**
Renewals	$14,660	$14,161	-$498
Tenant-protection	$200	$150	-$50
Family Self-Sufficiency	$49	$48	-$1
Administrative expenses	$1,351	$1,400	+$49
Incremental vouchers	$125	$75	-$50
Disaster Housing Assistance		$39	+$39

The proposed funding level for administrative expenses represents an increase of 3.6 percent over the 2008 funding level, but is unlikely to be sufficient to avoid a prorated cut. The budget would continue the policy enacted by Congress for 2008 (and which was proposed in the Administration's 2008 budget), according to which agencies earn administrative fees for each voucher leased based on a formula determined by HUD. If funding is not sufficient to pay the full formula amount, however, agencies receive less than 100 percent of the payments due.

The Administration's budget also includes $75 million for incremental vouchers for supportive housing for about 10,000 veterans and $39 million to prevent displacement of people who are elderly or have disabilities and currently receive assistance from HUD's Disaster Housing Assistance Program, which is scheduled to end in March 2009. These provisions are welcome, but will barely dent the unmet need for housing assistance, as discussed above.

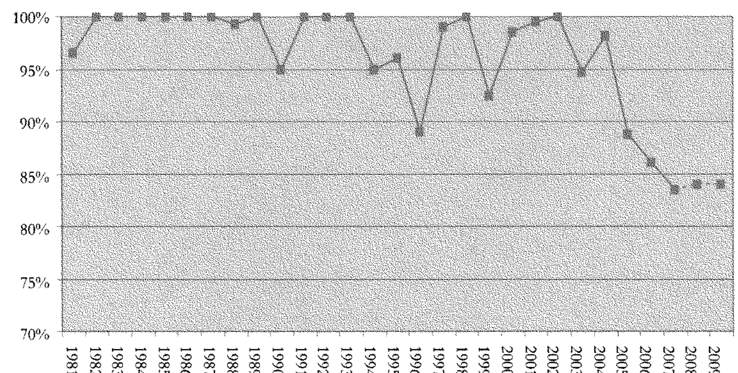
Budget Would Continue Chronic Underfunding of Public Housing

The Administration's budget would provide $6.3 billion in funding for public housing, 6 percent below the 2008 level. Compared to the *2001* level, the Administration's request represents a reduction of 11 percent (or $790 million) before adjusting for inflation and 28 percent after adjusting for inflation.

FIGURE 1

Public Housing Operating Fund Has Been Repeatedly Underfunded in Recent Years

Operating Fund Pro-Rations by Fiscal Year



Note: Prorations in 2006 and before would be substantially deeper if they were calculated based on the current operating subsidy formula, because formula revisions implemented in 2007 increased eligibility levels by approximately 8 percent in 2007 and by larger margins in later years. The prorations shown in the chart for 1981-2007 are as reported by HUD in the "Operating Fund Annual Report: Calendar Year 2007," October 31, 2007, p. 7, available on the internet at http://www.hud.gov/offices/pih/programs/ph/am/of/opfund07rpt.pdf. The 2008 proration is a HUD estimate based on the actual funding level; see "Explanation of Second Funding Cycle CY 2008 Obligation for March through June," February 27, 2008, available on the internet at http://www.hud.gov/offices/pih/programs/ph/am/of/cy2008oblig2.pdf. The 2009 proration is based on a Center estimate of operating fund eligibility and HUD's estimate provided in the "Congressional Budget Justifications" for Public Housing Operating Fund, page E-7.

Funding for the *Public Housing Capital Fund* which provides funding for major repairs such as replacing obsolete heating systems or fixing leaky roofs, would fall $415 million (or 17 percent) below the 2008 level, and be more than $850 million below what will be needed to address the new repair needs expected to accumulate in 2009. Public housing developments already have a backlog estimated at more than $20 billion in unmet capital needs.[12]

For the *Public Housing Operating Fund*, which covers day-to-day operating costs such as utilities, basic maintenance, security at public housing developments, and admissions, the budget requests $100 million above the 2008 level. This amount would provide housing agencies with only 84 percent of the amount they are likely to be eligible for under the federal public housing operating fund formula, which is designed to measure needs for those funds. Some $820 million above the level in the budget would be needed to provide agencies with the full amount for which they are likely to be eligible. Even providing 95 percent of the funds for which agencies are likely to be eligible would require an increase of $570 million above the level in the budget.

Some agencies may be able to make up for *short-term* reductions in public housing funding by drawing on reserves or increasing their operating efficiency but 2009 would mark the *seventh consecutive year* in which operating subsidies have been underfunded and the *eighth straight year* in which capital funding has been frozen or cut. As a result, many housing agencies no longer can make ends meet by using such measures. Instead, they are increasingly being forced to increase revenues or cut costs in ways that have harmful effects on families residing in public housing, more than two-thirds of which are families that include at least one person who is elderly or has a disability. Many agencies have already been compelled to:

- increase rents, fees, and utility charges;
- shift public housing units to higher-income tenants, who can be charged higher rents;
- scale back security protections;
- reduce maintenance of public housing developments; and/or
- defer capital repairs, including safety-related improvements such as replacing obsolete fire-safety systems.

Furthermore, if public housing continues to be underfunded, an increasing number of agencies are likely to conclude they must sell or demolish part or all of their public housing stock. The number of public housing units has already fallen by approximately 177,000 (or 13 percent) from 1995 to 2007.

A substantial share of the remaining public housing developments provide decent housing in low-poverty neighborhoods with good schools and job opportunities or provide affordable homes for low-income elderly people or people with disabilities who otherwise would be forced to leave their neighborhoods or hometowns or move to institutional settings. If additional funding is not provided, those developments — and the more than 60 years of federal investment they represent — will increasingly be placed in jeopardy.

TABLE 3

	2008 Enacted (millions)	2009 Bush Budget (millions)	Difference (millions)
Public Housing (total)	**$6,739**	**$6,324**	**-$415**
Capital Fund	$2,439	$2,024	-$415
Operating Fund	$4,200	$4,300	+100
HOPE VI	$100	$0	-$100

The budget also would eliminate the HOPE VI program, which provides grants to housing agencies to revitalize severely distressed public housing. Congress provided $100 million for HOPE VI grants in 2008. If HOPE VI is reauthorized in a manner that will prevent the further loss of units and provide better outcomes for families residing in severely distressed projects, additional investments in this program would be worthwhile.[13]

Section 8 Project-Based Rental Assistance Faces Large Shortfalls

Under the Section 8 Project-Based Rental Assistance program, HUD contracts with the private owners of nearly 1.3 million units of housing to make them affordable to low-income families, the great majority of which are headed by people who are elderly or have disabilities. Rental assistance for approximately 80 percent of these units is funded by annual appropriations from Congress; assistance for the remaining 20 percent of units is funded under long-term contracts with HUD, using budget authority appropriated in previous decades.

The project-based program has been enveloped in a funding crisis since 2007, when federal funding shortfalls caused lengthy delays in payments to a large share of the owners of Section 8 housing. In the fall of 2007, HUD conceded that its fiscal year 2008 budget request of $5.5 billion was $*2.6 billion shy* of the amount needed to provide a full 12 months of funding for all Section 8 contract renewals. However, instead of requesting the needed funds from Congress, HUD broke with previous policy and began requiring private owners to accept short-funded contracts — i.e., 12-month contracts that were funded for only part of the contract period (typically only through the remaining months of the fiscal year).

These developments have badly shaken owners' confidence in the program. In a hearing before the House Subcommittee on Housing and Community Opportunity on October 17, 2007, owner representatives testified that the late payments and short-funded contracts have resulted in serious difficulties for them in managing their properties, have increased their operating costs, and are likely to make it more difficult and expensive for them to raise capital from lenders and investors to rehabilitate and improve these properties. HUD Assistant Secretary Brian Montgomery recently conceded in testimony before the House Appropriations Subcommittee on Transportation and HUD that short-funding is harmful to owners and that full-funding contract renewals is a desirable goal.

Already, 10,000-15,000 units of affordable Section 8 housing are lost every year as owners leave the program. As more owners lose confidence in the program's financial stability and find it increasingly difficult to raise the funds needed to modernize their properties, many more of them are likely to opt out of the program — especially owners in tight rental markets where incentives to exit the program already are strong. At greatest risk of loss are approximately 150,000 rental units with Section 8 rents that are well below market levels. (See the Appendix for state-by-state data on the number of Section 8 units at risk.)

With most Section 8 renewals being short-funded in fiscal year 2008, we estimate that $2.5 billion will be needed just to "back-fill" the renewals that are receiving less than 12 months of funding this year. An additional $7.0 billion will be required to provide 12 months of funding for all contract renewals in 2009. Altogether, $9.6 billion will be required to fully renew project-based Section 8 contracts in 2009.

The Administration's budget, however, provides only $7.16 billion for renewals of Section 8 project-based rental assistance in 2009, including a $400 million advance of budget authority from fiscal year 2010. The funding requested is more than $1 billion above the 2008 funding level — as the Administration now acknowledges that a substantial shortfall exists — and the proposed advance funding mechanism represents a sound policy. But the budget request still falls *$2.4 billion short* of the amount needed to restore full funding and thereby renew the confidence of the private owners on whom the program depends.

It is critical that this shortfall be filled (and that this be done without taking funds from other HUD rental assistance programs, or Congress will simply be trading one problem for another of equal gravity). Congress could provide a portion of the needed funds by appropriating supplemental funds in 2008 or by providing more than a $400 million advance of budget authority for fiscal year 2010. A supplemental appropriation would allow HUD to return immediately to the policy of full-funding every contract, which would begin to restore property owners' confidence in the financial security of the program. Both of these options would alleviate the fiscal pressure that the Section 8 shortfall will place on the overall HUD budget for 2009.

Funding Needs For Other Low-Income Housing Assistance Programs

As in previous budgets, the Administration proposes to slash funding for the Section 202 and Section 811 programs, which fund supportive housing for low-income people who are elderly or have disabilities. Section 202 would be funded at $540 million, or $195 million (27 percent) below the 2008 level. Section 811 would be funded at $160 million, a cut of $77 million (or 33 percent) below the 2008 level. These cuts would sharply reduce the programs' capacity to promote the development of affordable, service-enriched housing for people who are elderly or have disabilities.

The Administration's request for Section 202 would fund only 2,400 new units of housing for the elderly, according to Administration budget documents. This is 40 percent fewer than the number of units funded in 2006. Given the continuing need for additional supportive housing for low-income individuals who are elderly or have serious disabilities, Congress should at least maintain funding for these programs at the baseline level.

The Administration's budget does include modest increases for homeless assistance and the HOME block grant. Homeless assistance would receive funding of $1.63 billion in 2009, an increase of $50 million (3.2 percent) over the 2008 funding level. All of the increase would be set aside for demonstration grants to address the supportive-housing needs of chronically homeless individuals. The HOME block grant would be funded at $1.85 billion, an increase of $225 million (or nearly 14 percent) above the 2008 level. (The program would still be 16 percent below its funding level five years ago — in 2003 — adjusted for inflation.) Funding for the Housing Opportunities for People with HIV/AIDS program would be frozen at $300 million.

Community Development

The Administration's budget would provide $2.9 billion for formula grants under the Community Development Block Grant (CDBG) in fiscal year 2009. This is $659 million, or 18 percent, less than Congress provided in 2008. (For data showing the impact of the President's proposed cuts in CDBG on states, see Sharon Parrott et al., "President's Budget Would Cut Deeply into Important

Public Services and Adversely Affect States," February 20, 2008; available at http://www.cbpp.org/2-20-08bud.htm.)

The budget also proposes to cancel $206 million in 2008 funding for specific economic and neighborhood development initiatives (i.e., for initiatives that come in the form of earmarks). Since Congress is unlikely to agree to this proposal, funding reductions would have to be found elsewhere in the community development area to remain within the overall levels that the Administration has requested for community development. If the reductions came out of CDBG formula grants (the most likely target, as it is by far the largest account within the Community Development Fund, which includes both CDBG and the earmarked grants), the formula grants would be cut a total $865 million, or 24 percent.

Proposed Unlimited Expansion of Ability to Operate Public Housing and Voucher Programs with Few Federal Rules Should Not be Permitted

The budget includes a provision that would allow HUD to designate an unlimited number of public housing agencies to participate in the "Moving-to-Work" demonstration (MTW).[14] Currently, 29 agencies -- including four added by the FY2008 appropriations bill—are authorized to participate in MTW. Established in 1996 by a provision in an omnibus appropriations bill, MTW permits HUD to grant agencies waivers of voucher and public housing program rules to allow the agencies to experiment with different policies. Agencies can use those waivers, for example, to raise rents on tenants substantially or to place time limits on assistance, even for working families that cannot afford market-rate housing on their own. MTW also allows HUD to grant waivers that authorize agencies to dispense with most federal rules and tenant protections, with deregulation, rather than tenant self-sufficiency, as an end in itself.

MTW was intended to test innovations in housing policy, but its success in this regard has been limited. The demonstration's design did not provide for careful evaluation of the policies with which agencies experimented. As a result, MTW has generated a wealth of anecdotal reports but few firm, objective findings. Targeted, rigorously-evaluated, housing policy demonstrations (such as Moving-to-Opportunity, Jobs Plus, and the Welfare-to-Work Voucher program) have generated a far greater quantity of useful findings than the MTW demonstration, with much less disruption to tenants.

In addition, the current MTW demonstration does little to guarantee that housing agencies will be held accountable for the policies they adopt or be required to fully disclose to the public how they have used their flexibility under the demonstration. HUD's Office of the Inspector General has issued a series of sharply critical reports on MTW that have noted flaws such as ineffective oversight by HUD and poor use of funds by some local agencies.[15]

Granting HUD unlimited authority to designate additional agencies to participate in the current MTW demonstration would be equivalent to allowing HUD to disregard the U.S. Housing Act at will. As such, it would be a serious abdication of Congress' responsibility to determine the rules that apply to the expenditure of public funds.

Nonetheless, the Administration's proposal, like the nearly 20 percent expansion of the program in the FY2008 appropriations bill, reflects the substantial pressures from many quarters to increase the number of agencies participating in MTW. It is important for the authorizing committees of Congress to assert their appropriate jurisdiction over the future of this program.

The House-approved Section 8 Voucher Reform Act, discussed above, is an important first step. It includes a provision that would reauthorize the demonstration for 10 years and rename it the "Housing Innovation Program" (HIP). HIP could include up to 80 state and local housing agencies (including the 29 currently permitted). In return for this expansion, the House bill would strengthen the protections for tenants and enhance their ability to participate in developing the new policies that will affect them, as well as require the evaluation of policy and administrative changes.

But the evaluation requirements of the House HIP provision are not sufficiently rigorous to enable HIP to live up to its purpose and potential as a testing ground for future housing policies.[16] Moreover, allowing an additional 51 agencies to participate could mean that more than 1 million families — about a third of all voucher holders and public housing residents — could be subject to locally-developed rules at variance with the U.S. Housing Act. Such expansion would place far more tenants at risk of harmful consequences than is necessary to test innovative policies. It is likely that a HIP provision will be added to the Senate bill later in the legislative process. To build upon, rather than undermine, the improvements made by SEVRA's other components, it will be crucial that such a provision limit HIP to a size that is appropriate for a demonstration.[17]

Conclusion

The Administration has defended the President's proposed cuts in domestic programs by stressing the need for fiscal responsibility.[18] Yet the budget would actually *enlarge* deficits over coming years, because its cuts in domestic discretionary and entitlement programs would be substantially outweighed by the cost of its tax cuts and defense-spending increases.[19]

The President's proposed cuts in funding for low-income housing assistance and programs designed to boost development in low- and moderate-income communities thus appear to have less to do with fiscal responsibility than with questionable budget priorities. The President has proposed funding cuts that would lead to a loss of rental assistance for large numbers of low-income families, elderly, and people with disabilities served by the Section 8 voucher program or other federal housing programs. The Administration's cuts also would speed the deterioration and loss of public housing units and of apartments supported by the project-based Section 8 rental assistance program. These programs provide affordable housing resources for some of the nation's poorest and most vulnerable people.

In fiscal years 2007 and 2008, Congress rejected deep reductions in funding for HUD programs. It made modest investments to sustain existing levels of housing assistance and community development funding, reduce the number of homeless veterans, and avoid thousands of impending mortgage foreclosures. For the reasons explained above, the 2009 HUD budget presents fiscal challenges that are far greater than those of the past two years. To meet these challenges — and to sustain housing assistance for low-income families at a time when needs are growing — funding for housing and community development will need to exceed the levels the Administration has requested by a substantially larger margin than it did in 2007 and 2008.

Appendix

State Impacts on Three Key HUD Programs Under the President's Budget

State	Section 8 Housing Choice Vouchers	Public Housing		Section 8 Project-Based Rental Assistance
	Number of Low-Income Families Whose Vouchers Would Not Be Renewed by the President's Budget[1]	*Operating Fund Shortfall, According to HUD's operating cost formula (thousands of dollars)*[2]	*Cut in Funding for Capital Fund, Compared to 2008 Level, Adjusted for Inflation (thousands of dollars)*[3]	*Number of Affordable Units at High Risk of Loss Due to Owners Quitting the Program If Shortfalls Are Not Addressed*[4]
Alabama	1,305	-$24,434	-$13,420	314
Alaska	202	-$1,575	-$545	138
Arizona	923	-$6,525	-$2,054	912
Arkansas	1,026	-$3,617	-$4,252	102
California	14,079	-$24,607	-$18,779	37,402
Colorado	1,352	-$4,861	-$2,802	2,494
Connecticut	1,563	-$13,750	-$5,945	3,724
Delaware	210	-$2,116	-$1,132	172
District of Columbia	508	-$9,742	-$5,139	5,676
Florida	4,168	-$23,652	-$12,949	10,692
Georgia	2,300	-$27,370	-$16,545	3,365
Hawaii	461	-$2,958	-$2,477	1,000
Idaho	303	-$180	-$263	153
Illinois	3,725	-$51,746	-$35,504	1,332
Indiana	1,607	-$9,309	-$6,187	1,139

[1] Center estimates, based on analysis of HUD data. For more detail, see the explanatory footnotes in the main body of the paper.

[2] These cuts represent the difference between the President's budget for 2009 and the Center's estimate that housing agencies will be eligible for $5.12 billion in funding under HUD's operating cost formula. For more information on the Center's estimates, see the explanatory notes in the main body of the paper. The state distribution of cuts is based on the estimated distribution in 2009 according to the President's budget; see Table 8-28 in the "Analytical Perspectives on the FY 2009 Budget."

[3] These cuts represent the difference between the President's budget for 2009 and the CBO January baseline for the Public Housing Capital Fund. The state distribution of cuts is based on the estimated distribution in 2009 according to the President's budget; see Table 8-30 in the "Analytical Perspectives on the FY 2009 Budget."

[4] This is the number of housing units receiving Section 8 project-based rental assistance and with total rent (i.e., tenant contribution plus housing assistance payment) equal to less than 80 percent of the Fair Market rent, as determined by HUD. Owners receiving Section 8 rents that are well below market already have strong financial incentives to convert their units to private market use, and are therefore more likely to terminate their participation in the program if they are also concerned about its fiscal stability. Data source is an analysis of HUD's Multifamily Assistance and Section 8 Contracts Database (as of September 2007) by the National Housing Trust.

State	Section 8 Housing Choice Vouchers	Public Housing		Section 8 Project-Based Rental Assistance
	Number of Low-Income Families Whose Vouchers Would Not Be Renewed by the President's Budget[1]	*Operating Fund Shortfall, According to HUD's operating cost formula (thousands of dollars)*[2]	*Cut in Funding for Capital Fund, Compared to 2008 Level, Adjusted for Inflation (thousands of dollars)*[3]	*Number of Affordable Units at High Risk of Loss Due to Owners Quitting the Program If Shortfalls Are Not Addressed*[4]
Iowa	1,034	-$1,564	-$1,113	465
Kansas	538	-$3,775	-$2,499	218
Kentucky	1,474	-$11,354	-$8,249	1,106
Louisiana	1,182	-$14,821	-$10,625	4,798
Maine	583	-$2,559	-$1,183	185
Maryland	1,826	-$17,910	-$8,666	8,052
Massachusetts	3,404	-$28,827	-$12,652	6,545
Michigan	2,390	-$11,496	-$8,809	3,664
Minnesota	1,465	-$10,319	-$6,936	1,298
Mississippi	709	-$6,681	-$4,484	1,686
Missouri	1,878	-$8,589	-$7,441	1,925
Montana	262	-$1,195	-$663	83
Nebraska	537	-$2,618	-$1,891	372
Nevada	603	-$3,114	-$1,589	591
New Hampshire	422	-$2,061	-$1,154	321
New Jersey	3,000	-$34,519	-$16,131	3,510
New Mexico	618	-$2,225	-$1,382	1,120
New York	9,902	-$188,752	-$75,282	9,503
North Carolina	2,570	-$23,092	-$11,671	2,852
North Dakota	352	-$784	-$487	128
Ohio	4,199	-$38,325	-$19,477	3,157
Oklahoma	1,109	-$6,234	-$3,756	1,326
Oregon	1,500	-$3,604	-$2,209	635
Pennsylvania	3,681	-$54,898	-$32,406	4,018
Rhode Island	383	-$5,893	-$2,813	685
South Carolina	1,144	-$7,840	-$5,152	381
South Dakota	249	-$492	-$695	49
Tennessee	1,486	-$20,557	-$12,167	4,110
Texas	6,533	-$30,798	-$19,878	6,434
Utah	491	-$1,053	-$648	212
Vermont	275	-$604	-$589	63
Virginia	1,996	-$14,162	-$10,461	7,441

State	Section 8 Housing Choice Vouchers	Public Housing		Section 8 Project-Based Rental Assistance
	Number of Low-Income Families Whose Vouchers Would Not Be Renewed by the President's Budget[1]	*Operating Fund Shortfall, According to HUD's operating cost formula (thousands of dollars)*[2]	*Cut in Funding for Capital Fund, Compared to 2008 Level, Adjusted for Inflation (thousands of dollars)*[3]	*Number of Affordable Units at High Risk of Loss Due to Owners Quitting the Program If Shortfalls Are Not Addressed*[4]
Washington	2,158	-$7,672	-$6,261	1,902
West Virginia	664	-$3,895	-$2,182	101
Wisconsin	1,270	-$4,395	-$3,806	699
Wyoming	105	-$490	-$201	95
TOTAL	**97,218**	**-$820,000**	**-$461,000**	**148,345**

Endnotes

[1] CBPP calculations based on Congressional Budget Office analysis of the HUD provisions of the omnibus appropriations act for fiscal year 2008. Total is adjusted to include advance appropriations for Housing Choice vouchers for fiscal year 2009. The CBO analysis deducts rescissions, certain receipts, and other offsets from the new budget authority that the appropriations act provides.

[2] The 2008 HUD appropriations law included a one-time rescission of $723 million in housing voucher funds advanced in the 2007 law for the 4th quarter of calendar year 2007. (The voucher program is funded on a calendar-year, rather than fiscal-year, basis.) A similar rescission cannot be instituted in 2009 without harming the voucher program. In addition, the 2008 law rescinded $1.25 billion in recaptured funds from the Housing Certificate Fund. According to the President's budget, there are no such funds available for rescission in 2009. Thus, a total of $1.973 billion in Section 8 balances was rescinded in the 2008 law, with this amount counted as a budget offset.

[3] OMB public database. Figure adjusted to treat Section 8 advances on calendar-year basis. The figure therefore is slightly higher than the $38.5 billion cited in Administration budget documents. The President's budget includes no proposed rescissions of recaptured Section 8 balances, and budget documents make clear that large recaptures will not be available in FY 2009.

[4] According to the Center's estimates, $15.5 billion will be required to renew vouchers in use in 2009, some $1.3 billion above the President's request and $868 million above the 2008 level. This estimate is explained in more detail in the section of this paper on housing vouchers, especially the text box on page 5.

[5] The Center estimates that $5.12 billion is required to fully fund the Public Housing Operating Fund. This figure is based on a Center estimate of the amount of operating subsidies for which agencies will be eligible to cover utility costs and HUD estimates from the 2009 Congressional Budget Justifications of non-utility components of operating subsidy eligibility. The $5.12 billion is $190 million lower than HUD's estimate that a $5.31 billion appropriation would be required to provide agencies with the full amount of operating subsidies they are due, because the Center estimate of utility eligibility is lower than the estimate HUD uses. Utility eligibility in 2009 will be calculated based on utility rates during the period from July 2007 through June 2008, inflated based on the rate of utility inflation from May 2007 through May 2008. The Center estimate replicates this formula using available information on actual public housing utility costs in previous years, CPI data on utility inflation through January 2008, Department of Energy projections of energy prices in later months, and projections of non-energy utility prices that assume prices will continue to grow at the same rate in recent years.

[6] $3.4 billion is the estimated amount needed above the FY 2008 level (or $2.4 billion above the budget request) to provide 12 months of funding for every Section 8 contract up for renewal in FY 2009. The Center estimate is based on HUD and Treasury data. Congress could meet a portion of the need for the project-based Section 8 program by appropriating supplemental funds in 2008 or including an advance appropriation of budget authority for 2010 in the budget resolution and the appropriations bill for 2009. These options could alleviate some of the pressure that the shortfalls in the Section 8 program will place on the HUD budget for 2009.

[7] This amount is the difference between the CBO FY 2009 baseline for discretionary HUD programs and the actual FY 2008 funding level, excluding from both totals the Section 8 rescissions and amounts for housing voucher renewals, the Public Housing Operating Fund, and the renewal of Section 8 project-based rental assistance. Also excluded from the FY 2008 total was an additional offset of $509 million related to a one-year change in a statutory limitation on the FHA's insurance of home equity conversion mortgages.

[8] Based on Administration's FY 2008 request of $35.571 billion as scored by CBO and adjusted to treat Section 8 advances on a calendar-year basis.

[9] Congressional Budget Justifications for Tenant-Based Rental Assistance, p. C-1.

[10] The HUD budget request cites $14.32 billion for the renewal of housing vouchers in 2009, rather than the $14.16 billion used here. Because the voucher program is funded on a calendar-year basis, it is more accurate to treat advance appropriations on a calendar-year basis rather than a fiscal-year basis. Accordingly, the voucher renewal funding figure used here includes $4.0 billion proposed in the budget for fiscal year 2010 that will be used to fund vouchers in the 4th quarter of calendar year 2009, and excludes the advance approved in the 2008 law for fiscal year 2009. The figure cited in the HUD budget uses the opposite approach.

[11] The legislative language submitted with the budget is ambiguous with respect to the proposed treatment of incremental vouchers under the renewal funding formula. Here we assume the more favorable reading — i.e., that adjustments for incremental vouchers issued in FY 2008 and leased for part of the year would be made under the proposed renewal funding formula.

[12] The President's budget requests $2.024 billion for the public housing capital fund account, with $1.939 billion available for grants under the capital fund formula and the remaining $85 million set aside for grants for services to promote self-sufficiency among public housing residents and for other purposes. A HUD-sponsored study in 1998 estimated the increase in capital repair needs to be $2 billion a year. Adjusted for inflation and a reduction in the number of public housing units, this amounts to $2.540 billion in 2009. Approximately 9.1 percent of funds distributed under the capital fund formula are committed to "replacement housing factor" grants that partially cover the cost of replacing lost public housing units. As a result, providing $2.540 billion for repairs would require a total of more than $2.794 billion in formula funds — $855 million more than the $1.939 billion the budget requests. (In addition to providing inadequate funding for the capital fund formula, the budget also would cut the non-formula set-asides within the capital fund account by $27 million below the 2008 level of $112 million. Providing adequate formula funding to cover the annual increase in capital repair needs, while also funding the non-formula set-asides at the 2008 level, would require a total capital fund appropriation of $2.905 billion, or $881 million above the $2.024 billion requested in the budget.)

[13] See Barbara Sard and Leah Staub, "House Bill Makes Significant Improvements in 'HOPE VI' Public Housing Revitalization Program," Center on Budget and Policy Priorities, revised January 30, 2008. Available at http://www.cbpp.org/1-16-08hous.pdf.

[14] See Budget Appendix p. 595, section 211 of the administrative provisions of the HUD budget.

[15] The Office of the Inspector General has conducted a general audit of MTW design and implementation, audits examining the Vancouver (WA), District of Columbia, San Mateo County (CA), Oakland, Seattle and Pittsburgh MTW programs, an audit of HUD's oversight of the Philadelphia MTW program, as well as an audit of HUD's decision to admit the Housing Authority of Baltimore City to the MTW program. The reports are available at http://www.hud.gov/offices/oig.

[16] Jeffrey Lubell and Jon Baron, "The Importance of Integrating Rigorous Research Objectives into any Reauthorization of the "Moving to Work" Demonstration," Center for Housing Policy and Coalition for Evidence-based Policy, March 2007, available at http://www.nhc.org/pdf/pub_chp_mtw_0307.pdf..

[17] For additional discussion of the House HIP provision, see Barbara Sard and Will Fischer, "Bipartisan Legislation Would Build on Voucher Programs Success," available on the internet at http://www.cbpp.org/5-4-07hous.htm.

[18] See Sharon Parrott et al., "President's Budget Would Cut Deeply into Important Public Services and Adversely Affect States," February 20, 2008 (available at http://www.cbpp.org/2-20-08bud.htm), for an broad analysis of the President's proposed cuts in funding for domestic programs important to low-income families.

[19] See Robert Greenstein, James R. Horney, and Richard Kogan, "The Dubious Priorities of the President's FY 2009 Budget," February 7, 2008, available at http://www.cbpp.org/2-4-08bud2.htm.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR AKAKA FROM ALPHONSO R. JACKSON

Foreclosure Prevention

Q.1. Foreclosure and financial hardship can result in shame that, in turn, can prevent families from seeking the help and information they need to maintain ownership. Families are most likely to contact organizations they know and trust. These organizations may have specialized knowledge or abilities that can more effectively meet the needs of their communities. For example, there are social justice and housing development organizations within Asian American and Pacific Islander communities that effectively reach working families in their communities. How are HUD and its funding recipient, NeighborWorks, reaching out to these community organizations to ensure that effective financial assistance is available? What will be done to ensure that culturally and linguistically isolated populations will receive necessary foreclosure mitigation assistance?

A.1. HUD recognizes that families facing default and foreclosure are more likely to reach out to community-based organizations they know and trust. Several organizations with specialized knowledge, ability and experience serving the Asian American and Pacific Islander communities participate in HUD's Housing Counseling Program. For example, Asian Americans for Equality in New York, the Center for Pan Asian Community Services, Inc., in Georgia, and the Union of Pan Asian Communities in California, all provide critical default counseling, supported by HUD housing counseling grant funding and/or counselor training assistance. These organizations and others ensure that default counseling is available in multiple languages, including Cantonese, Mandarin, Korean, Vietnamese, and Hmong.

In order to more effectively reach out to and serve these culturally and linguistically isolated communities, in February 2008, HUD met with Lisa Hasegawa, the Executive Director of the National Coalition for Asian Pacific American Community Development (CAPACD), to discuss how CAPACD could become approved by HUD as a housing counseling intermediary and how organizations serving the Asian American and Pacific Islander communities could more effectively access HUD Housing Counseling Program resources. Also attending the meeting were Michelle Kauhane, the Executive Director of Hawaiian Community Assets, Susan Taoka, Executive Director of the Seattle Chinatown International District, and Robin Puanani Danner, President and CEO of the Council for Native Hawaiian Advancement. The meeting was an important step in building more effective partnerships between HUD and each of these organizations, and providing them access to the financial assistance they need to provide effective foreclosure mitigation assistance and other housing counseling services.

Moreover, the meeting with CAPACD in February was also attended by Jenifer Iba, a Senior Advisor at NeighborWorks America. NeighborWorks is a HUD-approved Housing Counseling Intermediary that received a HUD housing counseling grant of approximately $1.5 million for fiscal year 2008, and a housing counseling training grant for approximately $2.5 million. NeighborWorks uses these funds to provide various housing counseling services, including default counseling, and supports several affiliate organizations that serve Asian American and Pacific Islander communities. For example, with their HUD housing counseling grant, NeighborWorks makes sub-grants to three organizations that provide services in Hmong, NeighborWorks Greenbay (WI), Community Neighborhood Housing Services (MN), and Dayton's Bluff Neighborhood Housing Services (MN). NHS of the Silicon Valley (CA), which offers services in Vietnamese, and the Hawaii Homeownership Center, also receive HUD sub-grant funding from NeighborWorks. In fiscal year 2007, NeighborWorks reported providing housing counseling services to approximately 3,000 Asian Americans and Pacific Islanders.

At the February meeting, Ms. Iba discussed with CAPACD and the other attendees the $180 million the Congress appropriated directly to NeighborWorks through the Neighborhood Reinvestment Corporation, for the purpose of foreclosure prevention counseling. Because these funds were not appropriated to HUD, the Department was only able to play a minor, advisory, role in the awarding of those funds. Consequently, HUD is unaware of the steps NeighborWorks is taking to reach out to and fund organizations serving the Asian American and Pacific Islander communities with non-HUD funding. Questions regarding NeighborWorks, their National Foreclosure Mitigation Program, and how they are administering the $180 million appropriated directly to them, should be directed to NeighborWorks.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR REED FROM ALPHONSO R. JACKSON

Unfair Processes

Q.1. Whether they prove to be true or not, the fact remains that recent allegations about the allocation of HUD contracts have given many Americans the impression that HUD's selection processes for public housing are not fair. What is HUD doing to make sure that unfair processes are not taking place now, and will not take place in the future?

A.1. Contract support for Public Housing Agencies (PHA) can occur in two ways.

The most common services are provided by the PHAs themselves, wherein they solicit and obtain bids and proposals and award contracts in compliance with Federal requirements (including 24 CFR 85.36) and state and local laws and regulations. In general, PHAs are required to obtain the contract support in a competitive environment. The Office of Public and Indian Housing oversees the compliance of PHAs with the requirements in their contracting. If requested, the Office of the Chief Procurement Officer (OCPO) staff also assists in providing procurement training and, occasionally, the reviews of PHA procurements.

The secondary way of providing contract support to PHAs is through direct contracts awarded by HUD. We have a variety of methods that can be used to provide contract support, all of which are stated in the Federal Acquisition Regulation (FAR), and which are closely adhered to by Contracting Officers (COs) within HUD.

The determination of the acquisition strategy is highly dependent on a number of variables in every acquisition. This would include the type of support needed, the time available to procure the necessary support, and the availability of sources to perform the requirements. Advance acquisition planning is important to ensure the proper methods are utilized. However, it is also understood that long lead times are not always available in urgent situations.

The acquisition methods available to the CO include full and open competitive contracts, competition after exclusion of sources (such as for set-aside programs), competition utilizing GSA schedules, sole source contracts authorized by statute (such as the 8(a) program), multiple award indefinite delivery, indefinite quantity (IDIQ) contracts, and simplified acquisitions. All of these methods are clearly defined in the FAR. As a last resort, a CO could also award a sole source contract to a firm based on very specific circumstances that must be well documented. HUD COs have effectively utilized all of the available procurement methods in full compliance with the FAR.

To ensure full compliance, a number of oversight and internal control processes are in place. In order to obtain a CO warrant, staff must meet certain requirements to ensure they are adequately trained and are knowledgeable in their field. Whereas this authority and responsibility had once resided in the various field offices, within the past 2 years, OCPO has centralized the function for overseeing the issuance of CO warrants to ensure continuity and compliance with necessary requirements.

There are also various thresholds in place for multiple levels of reviews, depending on the dollar value of the procurement action. Most actions are also required to be reviewed by HUD's Office of General Counsel (OGC) for legal sufficiency. OCPO has also instituted an oversight process of reviewing a sampling of actions in each of our procurement offices through annual program management reviews (PMR). Through these reviews, we identify areas of weakness in operational contracting and focus on improving these areas through training and, if necessary, additional oversight. One additional tool for ensuring compliance with regulatory requirements is reviews conducted by the Office of the Inspector General (OIG). While prior OIG reviews have found weaknesses in various areas, most recently in areas of contract administration after the awarding of the contracts, OCPO has worked diligently to improve those areas. We are proud to point out that, despite consistent severe staffing shortages, OIG reviews have not identified any area where OCPO staff has violated any statutory or regulatory requirements.

OCPO personnel are very careful to ensure full compliance with regulatory requirements. While there may be individual contractors that do not believe they have an opportunity to compete for contracts, HUD has mechanisms in place to provide widespread dissemination of information, including the annual Forecast of Opportunities issued by our Office of Small and Disadvantaged Business Utilization (OSDBU) and the use of FedBizOpps by COs when appropriate. Contractors also routinely market themselves for opportunities that are noted on the forecast, especially for opportunities for sole source 8(a) awards. For any sole source award, whether under the 8(a) program or other reasons, actions are fully documented as to why the source was selected. If appropriate, the CO will also obtain OGC review.

Violence Against Women Act

Q.2. The Violence Against Women Act (VAWA) creates obligations for Public Housing Authorities and landlords and owners who accept Section 8 subsidies to refrain from discriminating against victims of domestic violence, dating violence and stalking in admission, and prohibits evictions of victims based on domestic violence, dating violence or stalking. It also requires Public Housing Authorities to include statements about VAWA implementation and services provided to victims of domestic violence, dating violence, sexual assault, or stalking in their Annual and Five-Year Plans. In spite of these legal requirements, HUD has approved plans without these statements, has distributed information through at least one of its regional offices stating that VAWA does not apply to Project-Based Section 8, and has failed to issue regulations to ensure consistent application of the law. Why has HUD failed to request funds to oversee the implementation of this law by the Housing Authorities, landlords, and owners that accept Section 8 that it oversees?

A.2. HUD–PIH guidance issued several notices to Public Housing Authorities (PHAs) to inform them of VAWA requirements. The Office of General Counsel has drafted VAWA regulations which should be published in the Federal Register by fiscal year ending September 30, 2008. HUD will issue additional guidance to reinforce the requirement to include VAWA protections and services in PHA plans; and provide technical assistance to HUD field offices that have the responsibility of approving PHA plans. The Department will determine in the near future any financial and human resources necessary to monitor PHA implementation and review of modified PHA plans.

Energy Efficient Housing

Q.3. "Energy efficient" housing is not necessarily synonymous with "healthy" housing. What will, and is HUD doing to ensure that the move to more energy efficient manufactured, public and assisted housing does not compromise indoor environmental quality,

A.3. Within Public and Indian (PIH), we are reformatting and broadening our and Public Housing Website from Public Housing Energy conservation Clearinghouse to the Public Housing Environmental and Conservation Clearinghouse (PHECC) to address and integrate healthy and energy efficient housing solutions. For example, PLR is working closely with the Department's Office of Healthy Homes and Lead Hazard Control on a PIH Notice—Renewable Energy and Green Construction Practices in Public Housing to coordinate renewable energy and health issues. Also, PIH NOTICE 2007–12 focuses on integrated pest management; the goal is to manage pest damage by the most economical means, with the least possible hazard to people, property, and the environment. In addition, in the Green Issue of our monthly PHECC newsletter, we speak on topics such as the use of formaldehyde-free plywood, as well as paints and adhesives with fewer Volatile Organic Compounds (VOCs), in order to reduce atmospheric pollution.

Historically, residential buildings did not have specific requirements for ventilation, because leakage in envelope components and natural ventilation were considered adequate. HUD agrees that envelope construction practice has improved, and with greater emphasis on air sealing as a central component of energy efficient construction or housing rehabilitation, the need to control air quality in the home has also increased, and greater attention needs to be paid to selection of materials that are healthy for building occupants.

Indoor Air Quality and the International Energy Conservation Code: HUD is in the process of implementing the new requirement set by Congress in the Energy Independence and Security Act of 2007 to establish the 2006 International Energy Conservation Code (IECC) as the standard for new construction of HUD-assisted and HUD-insured properties. With the exception of Section 402.4.2 (Fenestration Air Leakage), the 2006 International Energy Conservation Code does not provide specific direction on air infiltration and leakage rates, nor has HUD adopted or established specific ventilation requirements beyond those referenced in locally adopted codes. Most localities have adopted more advanced versions of the IECC than the 1992 Model Energy Code that remains HUD's current minimum standard for energy efficiency in public, assisted and insured housing (with the exception of HOPE VI, which is currently set at the 2003 IECC).

Indoor Air Quality and Energy Star for New Homes. HUD's Energy Action Plan, as reported to Congress in August 2006, sets Energy Star for New Homes as the preferred (but voluntary) standard for new construction and gut rehabilitation financed through HUD's programs (15 percent more efficient than the 2004 International Residential Code). The Energy Star for New Homes label requires an extensive by-pass sealing procedure to minimize air leakage in the home.

The standard for Energy Star for New Homes requires mechanical ventilation to be provided if the home tests at lower than .35 ACH (air changes per hour), in compliance with ANSVASHRAE 62.2, Ventilation and Acceptable Indoor Air Quality in Low-Rise Residential Buildings. ASHRAE 62.2 provides a higher standard for ventilation and indoor air quality than the current requirements for the International Residential Code. The standard requires source-control measures that exhaust pollutants from specific rooms before the pollutants enter the rest of the household. In addition, whole-house ventilation brings fresh air into the house, diluting that are difficult to control at the source.

Other HUD Actions Related to Indoor Air Quality and Healthy Housing: In addition to ensuring adequate ventilation, if the building envelope is tightened in order to minimize heat loss or gain, greater attention needs to be paid to selection of materials that limit out-gassing of formaldehydes and other potentially harmful substances, including mold, that could be harmful to building occupants. Several HUD programs are encouraging the use of "green" building measures that that contribute to improved indoor air quality.

These include:

- The Office of Native American Programs (ONAP) is offering extensive training on indoor air quality, moisture and mold control and other green building practices to Indian tribes. Workshops on "Creating Energy Efficient, Comfortable and Healthy Tribal Homes" have been held as follows:

Santa Fe, NM	December 11–12, 2007
Denver, CO	February 27–28, 2008
Seattle, WA	March 18–19, 2008
Portsmouth NH	April 15–16, 2008
Anchorage, AK	May 5–6, 2008

A national conference on this subject is scheduled for June 17–19 in Reno, NV.

- The PATH (Partnership for Advancing Technology in Housing) Mold Safe House in Chesterfield, New Hampshire is a demonstration of the use of paperless drywall, drainage and other construction techniques that eliminate the potential for mold and moisture buildup in the home (see *www.oathnet.org*). In addition, the PATH Concept Home in Omaha, NE includes several sustainability features, including mold-resistant gypsum wall board and a whole house mechanical ventilation that includes Energy Star qualified "smart" exhaust fans.
- The HOME program has developed a new efficiency and green building training curriculum that addresses indoor air quality and selection of healthy materials. The curriculum is expected to be introduced later this year.
- A National Healthy Homes conference sponsored by the Office of Healthy Homes and Lead Paint Control (OHHLC) to be held this fall will include a track on "Mainstreaming Healthy Housing," which will address the issue of bringing healthy homes criteria to HUD-assisted housing.
- The Mark-to-Market green remodeling initiative (*www.oaho.net*) provides an incentive for property owners to "go green" as part of Mark-to-Market debt restructuring in existing multifamily properties. The program does not specify ventilation requirements. As outlined in its November 2007 Green Guide, in addition to a mandatory Integrated Pest Management Program the program provides for a number of discretionary air quality measures that include the following:
    - *Green Variable Significant Additions:* OAHP requires the PAE use the following guidelines to consider such other Green rehabilitation items as may be appropriate for the property:
        - Kitchen and bath exhaust, using ENERGY STAR-rated exhaust fans, vented to the outside (or ENERGY STAR exhaust fan that runs continuously or on a timer)—generally recommended if feasible at reasonable cost.

- Carbon monoxide alarm on each occupied floor of the property, near the bedroom—generally recommended if feasible at reasonable cost.
- Low or no VOC materials for any rehabilitation involving paint, primers, adhesives, caulk, and sealants—generally recommended.
- Replacement of carpet with a smooth and cleanable surface—generally recommended only if: (i) the owner concurs and either (ii) the carpet to be replaced has reached the end of its useful life or (iii) there is a sound economic or health justification for early replacement of carpet that has not reached the end of its useful life.
- Low VOC carpet—if the carpet is being replaced with new carpet, generally recommended if the increased cost is less than 10 percent.

(PAE = Participating Administrative Entity)

- The Office of Public and Indian Housing (PIH)is reformatting and broadening its Public Housing Energy Conservation Clearinghouse to the Public Housing Environmental and Conservation Clearing house (PHECC), to address and integrate healthy and energy efficient housing solutions. A recent Green Issue of the monthly PHECC newsletter speaks to topics such as "Engineers and architects agreed on foam building insulation instead of the more common batt insulation. Builders also used formaldehyde-free plywood, as well as paints and adhesives with fewer VOCs, in order to reduce atmospheric pollution." PIH is also working closely with the Department's Office of Healthy Homes and Lead Hazard Control on a PIH Notice—Renewable Energy and Green Construction Practices in Public Housing, to coordinate renewable energy and health issues. PIH has also issued Notice on Integrated Pest management 2007–12.

Energy Independence and Security Act of 2007

Q.4. The recently enacted Energy Independence and Security Act of 2007 has numerous HUD-related provisions, including energy code improvements applicable to manufactured housing, the application of the International Energy Conservation Code to public and assisted housing, and training federal contracting officers to negotiate energy efficiency contracts. These energy provisions do not seem to be accounted for in your FY 2009 Budget Request. What steps is HUD taking and what resources is HUD mobilizing to ensure that these required energy improvements are met in a timely manner?

A.4. The Energy Independence and Security Act of 2000 (the Act) moves the responsibility for setting energy standards for manufactured homes from HUD to the Department of Energy (DOE). The Act specifically requires DOE to establish (by 2012) energy standards for manufactured housing that are based on the most recent version of the International Energy Conservation Code. Though this responsibility has now been given to DOE, HUD's Office of Manufactured Housing Programs has met with DOE to discuss ways in which HUD can assist in this effort and how the two agencies can cooperate on the implementation and enforcement when the DOE standards are published.

Also, HUD is in the process of drafting a revised 24 CFR 965. The draft regulation is intended to implement the International Energy Conservation Code (IECC) contained in the Energy Independence and Security Act of 2007. HUD does not negotiate energy efficiency contracts, but training on energy performance contracting is provided to public housing agencies. The President's 2009 Budget is sufficient to cover these staff and training costs.

Actions taken by HUD related to specific sections are below:

- Section 413, Energy Code Improvements Applicable to Manufactured Housing. This section establishes the most recent International Energy Conservation Code as the standard for HUD-Code manufactured housing. It requires the Department of Energy (DOE), in consultation with HUD to establish the standard by regulation, within 4 years from the date of enactment of the Act. HUD is coordinating with DOE to facilitate timely action and consultation with the Manufactured Housing Consensus Committee.
- Section 481, Application of the 2006 International Energy Conservation Code to Public and Assisted Housing.

Section 481 of the Act amends and updates Section 109 of the Cranston-Gonzalez National Affordable Housing Act (42 U.S.C. 12709) to require that HUD assisted and insured properties "meet or exceed" the 2006 International Energy Conservation Code. HUD is planning to publish an Advance Notice of Proposed Rulemaking to solicit public comment on the changes required by Section 481. HUD anticipates that comments on the Advanced Notice will provide guidance on the appropriate standard for each program area.

In addition, the Office of Public and Indian Housing (PIH) has in draft a revision to 24 CFR 965. This regulation is in clearance within PIH. The draft regulation is intended to implement the IECC code provision contained in Section 481.

- Section 517. Training Federal Contracting Officers to Negotiate Energy Efficiency Contracts.

Section 517 requires HUD personnel to receive training under the Federal Energy Management Program, designed to educate Federal contract negotiation and contract management personnel so that contract officers are prepared to: (1) negotiate energy savings performance contracts; (2) conclude effective and timely contracts for energy efficiency services with all companies offering energy efficiency services; and (3) review Federal contracts for all products and services for the potential energy efficiency opportunities and implications of the contracts.

HUD is in the final stages of successfully negotiating an energy performance contract with an energy services company (ESCO) that will reduce HUD's annual energy bill and provide guaranteed payback for its investments. The Scope of Work includes energy efficient lighting throughout, water conservation measures, a rooftop photovoltaic and solar thermal system, green roof, replacement of all windows with double-glazed windows, and various other Energy Conservation Measures (ECM's). Section 517 directs DOE to create, and administer, a training program to educate Federal contract personnel. Section 517 provides that DOE will perform this action not later than 1 year after the date of enactment of EISA of 2007. EISA of 2007 was signed into law on December 19, 2007, making the schedule date for establishment of a DOE training program December 19, 2008.

HUD will seek and provide training to contract officers and contract management personnel as necessary to implement and administer the current ESPC project. As the DOE program becomes available, HUD will select and send personnel for training.

- Sec. 494 Green Building Advisory Committee

HUD shall serve as a representative to the Green Building Advisory Committee, which shall provide advice and expertise concerning the management of Federal building efficiency, leasing, and Federal green building performance.

EISA of 2007 (H.R. 6, Sec. 494) requires the Federal Director (The Office of Federal High Performance Green Buildings {H.R. 6, Sec. 436 A}), in coordination with the Commercial Director (H.R. 6, Sec. 421), to establish the Green Building Advisory Committee comprised of the agencies referred to in H.R. 6, Sec. 421(e).

Upon establishment of the committee, or notification of first scheduled meeting, HUD will participate as a member of the committee.

Cuts to Section 811

Q.5. All of the proposed $77 million cut to Section 811 funds for housing for the disabled would come from the capital advance-project-based side of the program that produces new units of permanent supportive housing a cut of more than 70%. What justification does HUD have for such a radical shift of funding within 811 away from: a) production of new accessible units that provide a direct link to supportive services such as medical care, transportation, employment, etc.? b) individuals with more severe disabilities who have higher support needs and face an enormous struggle in trying to find housing using only tenant-based A assistance?

A.5. The Department is aware of the need for additional supportive housing for persons with disabilities. However, limiting the cut to new production ensures that those persons with disabilities currently receiving the benefits of assistance, including those with mainstream vouchers and others in housing developed under the Section 811 program, will not be at risk of losing their affordable housing. The limited funds will be used to renew mainstream vouchers and for renewal of project rental assistance contracts in existing Section 811 developments.

Low-Income Housing Tax Credit

Q.6. The Administration's request for FY 2009 for Section 811 includes a proposed $10 million demonstration program that would allow funding from the Low-Income Housing Tax Credit (LIHTC) program to be layered into 811 developments. Last year, HUD made a similar proposal as part of its FY 2008, but never formally submitted it to either this Subcommittee or the authorizing committee. When do you anticipate having this demonstration proposal ready for Congress? How many permanent supportive housing units do you anticipate this demonstration proposal producing in FY 2009?

A.6. The Department provided information on the proposed demonstration in its fiscal year 2009 budget submittal so that all interested parties, including Congress, can review and comment on. Based on our experience and consultation with the industry, we estimate that a $10 million demonstration could fund the cost of affordable housing for 150 to 300 persons with disabilities. The 150 would represent 100 percent of the funds utilized in the traditional method of developing Section 811 housing units and leveraging additional units through the tax credit program. The 300 represents the case where 100 percent of the funds are utilized to fund 5-year subsidy contracts that would be awarded to low-income housing tax credit projects to ensure that the projects were affordable to person with disabilities.

Incremental Voucher Targeted To Non-Elderly People With Disabilities

Q.7. For FY 2008, Congress appropriated $30 million for incremental vouchers targeted to non-elderly people with disabilities. As you know, these funds were not requested by the President. Can you update the Subcommittee on the progress in developing the funding announcement for these vouchers? What is HUD planning to do to ensure that applicant housing agencies target these vouchers to people with severe disabilities who are not on Section 8 waiting lists, e.g., individuals in nursing homes and institutional settings, adults living with aging parents, etc.?

A.7. HUD is in the process of preparing the Notice of Funding Availability (NOFA) for the target disabled population. It is anticipated that the clearance process will begin in mid-to-late May 2008; however, final NOFA publications are not anticipated until the fall. HUD is currently evaluating the various criteria used to ensure that vouchers will be targeted to non-elderly persons with disabilities, and this will take into account individuals in nursing homes and institutional settings, as well as adults living with aging parents.

Tenant-Based Rental Assistance For Non-Elderly

Q.8. Between FY 1997 and FY 2002, Congress annually appropriated funding for tenant-based rental assistance for non-elderly people with disabilities adversely impacted by the designation of public and assisted housing as "elderly only." There are approximately 62,000 of these non-elderly disabled vouchers—also known as Frelinghuysen vouchers—in use. Unfortunately, HUD was slow to develop a tracking system to ensure that they continue to be targeted to the population for which Congress intended. In February 2005, the Office of Public and Indian Housing (PIH) issued Notice 2005–5 relating to issuance and preservation of these vouchers. This PIH Guidance also covers "mainstream" tenant-based rental assistance for non-elderly people with disabilities funded under the Section 811 program.

However, due to the lack of guidance until 2005, there is considerable uncertainty as to how many of these vouchers remain targeted to non-elderly people with disabilities as Congress originally intended.

Can you please provide the Subcommittee with estimates of how both the Frelinghuysen vouchers and Section 811 “mainstream” tenant-based assistance have been targeted—and remain targeted towards the intended population?

A.8. PIH Notice 2005–5 issued implementation guidance to enable Public Housing Authorities (PHAs) and HUD field staff on initiatives to assist non-elderly people with disabilities in their search for housing under the Housing Choice Voucher Program. In addition, this notice clarifies issues related to issuance and preservation of certain types of special purpose vouchers, i.e. Frelinghuysen and 811 Mainstream Vouchers. By requiring PHAs to electronically report using the Form HUD–50058, HUD monitors these vouchers to ensure they are targeted to the intended population. The Department continues to work with these agencies to ensure that all special purpose vouchers are used for their intended purpose.

Q.9. Can you please update the Subcommittee on steps that PIH has taken to ensure housing agencies that have these non-elderly disabled vouchers are meeting their obligations under PIH Notice 2005–5?

A.9. To ensure that non-elderly vouchers are meeting their obligations under the PIN Notice 2005–5, HUD is tracking monthly usage of these non-elderly vouchers though its Voucher Management System (VMS). The Department is also working with the PHAs to ensure that all special purpose vouchers are used for their intended purpose. Failure to serve disabled families as required will result in forfeiture of the vouchers.

Project-Based Units For The Disabled

Q.10. Do you anticipate being able to make an allocation of $143.2 million available for new capital advance/project-based units for the disabled in FY 2008? When can we expect the FY2008 NOFA to be issued?

A.10. We anticipate making approximately $100 million available for new capital advance/project-based units for persons with disabilities. We note that in addition to funding amendments and renewals for tenant based assistance (mainstream vouchers) funded prior to fiscal year 2005, the appropriated funds must cover capital advance and project rental assistance contract amendments for projects currently being developed and project rental assistance contract renewals. The fiscal year 2008 NOFA is available at GRANTS.GOV and was published in the Federal Register on May 12, 2008.

Modernization of FHA

Q.11. In light of the pending modernization of FHA, is HUD ready to implement all the proposed aspects of the bill? Specifically, does FHA have enough staff, with the right skill-sets, and adequate IT funding to upgrade your aging FHA systems? If not, what if anything, does Congress need to do to help?

A.11. From a staffing perspective, we are in good shape because the FHA business process is so automated that we can accommodate substantial increases in program volume. It should be noted, however, that upgrades to FHA's systems and staffing are an ongoing process, and we continue to make improvements in both.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR REED FROM MICHAEL KELLY

Q.1. Mr. Kelly, as you are aware, D.C. hosts the 4th largest HOPE VI program in the country, having received $140.9 million. How do you anticipate the HOPE VI cut proposed in this budget request will affect D.C.'s progress towards neighborhood revitalization? Other large public housing authorities?

A.1. The administration's proposed cuts to the HOPE VI program would seriously undermine the ability of large urban housing authorities, like the District of Columbia Housing Authority ("DCHA"), to revitalize distressed public housing and improve the quality of life for residents. There is simply no other means for public housing authorities to make the significant up-front investment needed in these severely distressed projects.

Without an up-front commitment of HOPE VI funds, public housing authorities are unable to leverage the private and local investment necessary to reverse the decline in their most distressed properties. In Washington, DC, for example, the loss of DCHA's previous HOPE VI grants, totaling $140.9 million in federal dollars, would translate to a loss of $800 million in total direct investment in our most disadvantaged communities.

A major contributing factor to the most severe public housing challenges is HUD's chronic underfunding of the Capital Fund. This underfunding has placed further demand for HOPE VI in communities across the country. As I noted in my testimony on March 12, 2008, the Administration's Capital Fund budget request would actually underfund current accrual needs nationwide by more than $700 million in FY09. It is this ongoing, annual disinvestment by the federal government over time that has caused continued severe distress in public housing.

A 2005 study by the Urban Institute estimated that up to 82,000 severely distressed public housing units still exist nationally—many of them having become severely distressed since the creation of the HOPE VI program in 1993. It is important to remember that this distress is not simply in one or two physical properties, but has typically gripped the surrounding neighborhood as well. Without the HOPE VI program, public housing authorities have no other tools that are adequate to reverse this distress and achieve sustainable neighborhood revitalization.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR REED FROM DIANE RANDALL

Q.1. On the surface, it appears that the FY 2009 budget proposal calls for a $50 million increase in funding for homeless assistance programs. Your organization has estimated, however, that this funding level is still inadequate, since permanent housing renewals alone will increase by at least $75 million. Should we be concerned about homeless program funding in this year's budget request? Please explain why or why not.

A.1. Yes, you should be concerned about this year's budget request. The Department of Housing and Urban Development (HUD) estimates that the cost of renewals alone will be approximately $1.5 billion. A funding level of $2 billion is needed to renew existing projects while providing new resources for communities to address the unmet housing and service needs of millions. Therefore, little of the President's request would be available for new projects, and the thousands of Americans experiencing homelessness will not have the opportunity to receive critical shelter or services. In order to meet the national goal of establishing 150,000 new units of permanent housing by 2012, Congress and the Administration will need to allocate significant additional funding.

In the United States, on any given night, 744,000 people experience homelessness, and approximately 3.5 million people will experience homelessness at some point during the year. Alarmingly, approximately 44 percent of homeless individuals are unsheltered—literally living in parks, cars and campsites. The homeless population is made up of families with children, veterans, individuals with disabilities, survivors of domestic violence, unaccompanied youth and working poor single adults. And without housing assistance, these individuals and families will cycle in and out of emergency rooms, be unable to hold steady employment, their children will not be able to regularly attend school, and most importantly, they will not have safe and affordable housing.

Service providers who receive and rely on HUD homeless assistance funds work to create a safety net and also permanent, independent and affordable housing for families and individuals experiencing homelessness and provide homelessness prevention.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR REED FROM BARBARA SARD

Q.1. Some would argue that the drastic cuts to housing programs proposed under the FY 2009 budget request are justified, citing an increase in domestic discretionary spending in recent years. I am afraid that it is this line of reasoning, in fact, that has cost the CDBG program $659 million in this year's request. What would be your response to the suggestion that domestic spending has increased dramatically in recent years?

A.1. After accounting for inflation and population growth, we see that appropriations for the non-security portion of the budget hardly rose at all from 2001 through 2008. Specifically, this category of funding rose only 1.6%, from $399 to $405 billion. (The non-security portion of the budget consists of appropriations for all programs except National Defense (function 050), International Affairs (function 150), Veterans Benefits and Services (function 700), and homeland security amounts outside those three functions.) Every other set of programs in the budget grew more and faster, as the following table shows.

Programs	Dollar growth (in billions)	Percent growth
Non-security appropriations	$6	1.6
Security appropriations	340	72
Medicaid	41	25
Social Security	55	11
Medicare	109	40
Entitlements other than "Big 3" ...	45	15

I would add that non-security appropriations are the only category of the budget that shrank as a share of the economy during this period. Thus, aiming at housing programs, or any other non-security programs, on the grounds of excessive growth seems wildly off-target.

Q.2. We are often inclined to simply compare this year's budget request to last year's—but maybe we are missing some larger patterns. What longer term funding level trends have you identified for housing programs?

A.2. HUD budget trends must be understood within the context of the unique funding needs of HUD programs. In particular, because of the nature of HUD's affordable housing and community development programs and the manner by which Congress has chosen to fund some of these programs historically, the amount of funding needed to maintain current levels of assistance increases year-to-year at rates that generally exceed the overall rate of inflation. This is true for three reasons:

First, in each of the last several years, Congress has used roughly $2 billion in recaptured Section 8 funds from earlier years to help finance HUD programs. For a variety of reasons, such funds will not be available in 2009 (or future years), which means that funding for HUD will have to increase by $2 billion (or 5.3 percent) in 2009 simply to sustain HUD affordable housing and community development programs at 2008 funding levels, unadjusted for inflation.

Second, nearly 300,000 low-income families receive rental assistance under long-term project-based Section 8 contracts between HUD and private property owners. These contracts are currently funded with budget authority approved decades ago by Congress. Yet every year, contracts governing 20,000 to 40,000 of these Section 8 apartments expire and are converted to contracts that require new annual appropriations by Congress. The cost of these conversions, which is in addition to the appropriations needed to renew the 1 million Section 8 apartments that are already funded annually, ranges from $100 million to $300 million annually in new budget authority. (Outlays are not affected by the shift from long-term contracts to annual renewals.)

Finally, HUD funding needs are closely tied to the costs of rental housing and utilities. In recent years, rents and utility costs have risen at rates that exceed the general inflation rate (and the CBO baseline inflation rates) by a significant amount.

With this budgetary context in mind, budget data show that overall funding for HUD programs has risen modestly in recent years, once funding levels are adjusted for inflation and population growth, yet has fallen as a share of the overall economy. Even more troubling, some core HUD programs have experienced deep cuts.

After accounting for inflation and population growth, appropriations for the Dept. of Housing and Urban Development rose by 6.4 percent from 2001 to 2008, less than 1 percent per year. This rate of growth is much lower than the growth rates of defense, other security programs, and entitlement programs. From 2004 to 2008, funding for HUD actually fell slightly, after adjusting for inflation and population growth. Appropriations for HUD also fell by 4.5 percent as a share of the overall economy from 2001 to 2008.

These general trends mask deep cuts in some core housing and community development programs over the long term. Funding for public housing in 2008 is $1.8 billion (or 21.3 percent) below the 2001 level, adjusted for inflation only. Indeed, 2008 is the 7th straight year that funding for the Public Housing Capital Fund has been frozen or cut, and the 6th straight year that the Public Housing Operating Fund has been funded at a level below the amount required according to HUD's operating cost formula. These cuts would continue under the President's budget request for 2009: housing agencies would receive only 84 percent of the operating funding required according to the HUD formula, while the Capital Fund would be cut for the 8th straight year.

In 2008, funding for formula grants under the Community Development Block Grant program will be $2 billion (or 35.8 percent) below the 2001 level, adjusted for inflation and population growth. Block grant funding under the HOME program will be $609 million (or 27.2 percent) below the adjusted 2001 level. The President's budget has proposed deep cuts for CDBG again in 2009.

Funding for supportive housing for the elderly and people with disabilities has also experienced deep cuts. The 2008 funding level for Section 202 elderly housing is $253 million (or 25.6 percent) below funding in 2001, adjusted for inflation and population growth, while that for Section 811 supportive housing for people with disabilities is $39 million, or 14.1 percent, below the 2001 level.

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

FY 2009 Appropriations

	FY 2007 Appropriation Enacted	FY2008 Omnibus Report	FY2009 Budget
Total HUD Budget	$36.2B	$37.6B	$38.5 B
Housing Certificate Fund	Tenant Based Renewals: $14.436B Tenant Protection Vouchers: $178.2M Project Based: $5.976B	Tenant Based Renewals: $14.695B (increase of $259M from FY07) Tenant Protection Vouchers: $200M (increase of $22M from FY07) Project Based: $6.38B (increase of $405M from FY07)	Tenant based Renewals: $14.159B (plus what appears to be an offset of reserves of $600M, so may be even funding if the reserves are real) Tenant Protection Vouchers: $150 M (cut of $50 M from FY08) Project Based: $7B (increase of $620M)
Public Housing Capital Fund	$2.439B	$2.438 (no change from FY07)	$2.024B (cut of $415M-17% from FY08)
Public Housing Operating Fund	$3.864B	$4.2B (increase of $336M from FY07)	$4.3B (increase of $100M from FY08)
HOPE VI	$99M	$100M (increase of $1M from FY07)	0 (cut of $99M from FY08)
Disabled Housing - Section 811	$236.6M	$237M (increase of $0.4M from FY07)	$160M (cut of $77M-32% from Fy08)
Elderly Housing – Section 202	$734.6M	$735M (increase of $0.4M from FY07)	$540M (cut of $195M-27% from FY08)
Community Development Fund	$3.771B (cut of $406M from FY06)	$3.865B (increase of $94M from FY07)	$3.0B (cut of $865M-22% from FY08)
Community Development Block Grant	$3.71B	$3.593B (cut of $117M FY07)	$2.934B (cut of $659M-18% from FY08)
Brownfields	$9.9M	$10M	0 (cut of $10M from FY08)
Rural Housing and Economic Development		$17M	0 (cut of $17M from FY08)

[] – *Indicates subset of total*

FY 2009 Appropriations

	FY 2007 Appropriation Enacted	FY2008 Omnibus Report	FY2009 Budget
HOME	TOTAL: $1.757B [Formula grants: $1.68B] [Downpayment assistance: $24.75M] [Housing counseling: $41.58M]	TOTAL: $1.704B (cut of $53M from FY07) [Formula grants: $1.63B] (cut of $49M from FY07) [Downpayment Assistance: $10M] (cut of $15M from FY07) [Counseling: $50M]	TOTAL: $1.981B (increase of $277M-16% from FY08) [Formula Grants: $1.85B] (increase of $220M from FY08) [Downpayment Assistance: $50M] [Counseling: $65M]
Foreclosure Counseling		$180 M	0
Housing for Persons with AIDS (HOPWA)	$286.1M	$300.1M (increase of $14M from FY07)	$300M
Homeless Programs	$1.442B	$1.586B (increase of $144M from FY07)	$1.636B (increase of $50M from FY08, and up to $50 M for a Samaritan Housing Initiative for chronic homeless)
Lead Hazard Reduction Program (Office of Lead Hazard Control)	$150.5M	$145M (cut of $4.5M from FY07)	$116M (cut of $29M-20% from FY08)
Fair Housing	$45.5M	$50M (increase of $0.5M from FY07)	$51M (increase of $1M from FY08)
Native American Housing Block Grant	$623.7M	$630M (increase of $6.3M from FY07)	$627M (cut of $3M from FY08)

[] – *Indicates subset of total*