HOUSING IN AMERICA: ASSESSING THE INFRASTRUCTURE NEEDS OF AMERICA'S HOUSING STOCK

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HOUSING IN AMERICA: ASSESSING THE INFRASTRUCTURE NEEDS OF AMERICA'S HOUSING STOCK

Tuesday, April 30, 2019

U.S. House of Representatives,
Committee on Financial Services,
Washington, D.C.

The committee met, pursuant to notice, at 10:10 a.m., in room 2128, Rayburn House Office Building, Hon. Maxine Waters [chairwoman of the committee] presiding.

Members present: Representatives Waters, Velazquez, Sherman, Clay, Scott, Green, Cleaver, Himes, Foster, Beatty, Vargas, Gottheimer, Gonzalez of Texas, Lawson of Florida, San Nicolas, Tlaib, Porter, Axne, Casten, Pressley, McAdams, Ocasio-Cortez, Lynch, Gabbard, Adams, Garcia of Illinois, Garcia of Texas, Phillips; McHenry, Wagner, Posey, Luetkemeyer, Huizenga, Duffy, Stivers, Barr, Tipton, Williams, Hill, Loudermilk, Mooney, Davidson, Budd, Kustoff, Gonzalez of Ohio, Rose, Steil, Gooden, and Riggleman.

Chairwoman Waters. The Financial Services Committee will come to order. Without objection, the Chair is authorized to declare a recess of the committee at any time.

Today's hearing is entitled, "Housing in America: Assessing the Infrastructure Needs of America's Housing Stock." I now recognize myself for 4 minutes for an opening statement.

Today, this committee convenes for a hearing on addressing the infrastructure needs of America's housing stock. Congress must recognize that our nation's infrastructure extends beyond making investments in our roads, bridges, ports, and airports. It also includes our nation's affordable housing.

We are in the midst of a housing affordability crisis. According to the National Low Income Housing Coalition, there is a shortage of more than 7.2 million rental housing units that are affordable and available to the lowest-income families. In fact, no State in America has an adequate supply of affordable housing for the lowest-income renters.

For example, California has a deficit of over a million affordable and available units. Wisconsin has a deficit of nearly 140,000 units. Mississippi has a deficit of nearly 50,000 units. New York has a deficit of over 600,000 units.

Rising rents and gentrification are part of this problem. For example, in my district, the City of Inglewood, California, is experiencing economic development which, while it offers many benefits for the community, has also resulted in higher rents and has led to displacement of residents. Affordable housing must be a part of any solution or long-time and often lower-income residents will lose their homes.

Our public housing system, which houses 2.6 million Americans, is also in dire need of investment to repair kitchens, elevators, baths, doors, windows, and roofs. There is a public housing capital need backlog of $70 billion, and around 10,000 units are lost each year as a result of disinvestment.

Neglecting our housing infrastructure hurts our economy. Studies have found that the lack of affordable housing hurts economic productivity and wages. For all of these reasons, I have put forth a discussion draft that would make the investments we need in our housing infrastructure and critical jobs across the country.

The bill contains $1 billion to fully fund the backlog of capital needs for Sections 515 and 514, that is rural housing stock; $5 billion to support mitigation efforts that can protect communities from future disasters and reduce post-disaster Federal spending; $5 billion for the Housing Trust Fund to support the creation of hundreds of thousands of new units of housing that would be affordable to the lowest-income households; $100 million to help low-income elderly households in rural areas age in place; $1 billion for the Native American Housing Block Grant Program to address substandard housing conditions on tribal lands; $10 billion for a CDBG set-aside to incentivize States and cities to eliminate impact fees and responsibly streamline the process for development of affordable housing; and $70 billion to fully address the public housing capital backlog.

We also need to consider ways to incentivize developers to reduce the energy costs of affordable housing and to create housing that accommodates generations of families living under one roof.

This committee has already passed the Ending Homelessness Act to house the more than 500,000 persons experiencing homelessness, and is now turning its attention to addressing another aspect of the affordable housing crisis: the lack of housing infrastructure.

I now recognize the ranking member of the committee, Mr. McHenry, for 4 minutes for an opening statement.

Mr. MCHENRY. Thank you, Chairwoman Waters. I thank you for holding this hearing on the very important subject of housing.

First, I am encouraged, Madam Chairwoman, that you agree with committee Republicans that barriers to advancing and promoting affordable housing at the local level are important topics worthy of debate and consideration. That is included in this bill.

In particular, we need to find solutions to assist and partner with local communities who struggle to address affordable housing, especially the supply and demand dynamics in local neighborhoods.

A report which was the discussion by this committee in the last Congress found that up to 30 percent of the cost of developing and constructing affordable housing is attributed to outdated and sometimes unnecessary local regulations. On the other hand, Madam Chairwoman, this hearing is more than a discussion on how to incentivize local innovation to attract development of affordable housing for lower-income families.

This legislation you drafted as a subject of today's hearing raises serious concerns about the funding for publicly assisted rural and Native American tribal affordable housing projects. There is no question that today's federally supported affordable housing stock has serious capital improvement needs.

The last HUD study estimated $21 billion, and today we will hear that number could be as high as $70 billion. These are big costs representing big needs. But I would suggest that if we are to discuss a proposal to infuse $70 billion into public and assisted housing programs, then we need to really hear what should be happening for a 21st Century modern model for government-funded and assisted housing.

We shouldn't just be funding old models, we should be looking at the newest innovative models and the current models that actually work and get the most bank for the buck. Funding aside, public and rural assisted housing is struggling and it is not just because of a lack of funding.

Innovation, in particular using private financed markets to design and influence programs that advance able-bodied working families to get back into the workforce are effective models in the community. We have work-capable adults who are on the sidelines. We need to give them the means, the mechanism, and the opportunity to get back into the workforce and to find themselves in their own stable situation. We need a more holistic approach.

That is what is working in communities and getting people back into a sustainable housing situation. We know some of the toolset can work, Move to Work, the Rental Assistance Demonstration Program, and really the most recent idea, thanks mainly to Congressmen Duffy and Cleaver, is the Housing Choice Voucher Mobility Demonstration Act of 2018.

I would also bring attention to work conducted by Harvard University economist Raj Chetty, who developed the opportunity atlas using data from the U.S. Census Bureau and the Internal Revenue Service. And here is what Dr. Chetty found: If a person moves out of a neighborhood with worse prospects to a neighborhood with better outlooks, that move increases lifetime earnings for low-income children by an average of $200,000.

So I am interested in the opportunity atlas because it indicated that my neighboring community, Charlotte, North Carolina, which is really important for my region, ranked dead last out of 50 cities. I think that is problematic. So, I hope that we can work together to use the models that do work, and that we can focus on innovation.

I am happy to have a discussion that is not about throwing money at Depression-era programs that don't fit a modern setting in a modern situation and a modern economy. And to make sure that we have the right Federal investment for the best outcomes.

And so with that, I look forward to the panel and the questions today.

Chairwoman WATERS. The Chair now recognizes the gentleman from Missouri, Mr. Clay, the Chair of our Subcommittee on Housing, Community Development, and Insurance for one minute.

Mr. CLAY. I want to thank the chairwoman and the ranking member for convening this important hearing on housing infrastructure. As the Chair of the Subcommittee on Housing, I am honored to mark the 51st anniversary of the congressional passage of the Fair Housing Act during the month of April, which is National Fair Housing Month.

President Johnson signed the Fair Housing Act on April 11, 1968, one week after the assassination of Dr. King. The Fair Housing Act was a monumental step forward for the Civil Rights Movement and pivotal to establishing equal opportunity in housing for all Americans.

A 2018 report from the Council of Large Public Housing Authorities estimated that completing the $25 billion backlog of public housing repairs would infuse $80 billion into local economies. And according to the National Low Income Housing Coalition, in my Missouri congressional district, there are only 3 affordable homes for every 10 low-income renter households.

So we are coming up short and must address this problem with the necessary investment at the Federal, State, and local level. Madam Chairwoman, I see my time has expired, so I yield back.

Chairwoman WATERS. Thank you.

The Chair now recognizes the gentleman from Wisconsin, Mr. Duffy, the ranking member of the subcommittee, for one minute.

Mr. DUFFY. Thank you, Madam Chairwoman. I appreciate you holding this hearing today and I look forward to parts of your draft that work with rural housing developments, Sections 514 and 515. Chairman Clay held a hearing on these issues last month and I think this is a point of potential bipartisanship and I look forward to working with you and Mr. Clay and other Democrats.

But I also will have to say, do we just open up a checkbook and start spending money, to Mr. McHenry's point, or do we have a new vision for what programs will work for the 21st Century, and how do we effectively spend taxpayers' money on really important programs for virtually all of our communities?

As Mr. McHenry pointed out, we have to look at the cost of regulation, of local, State, and Federal regulation on the construction of housing. And I think we have to work as a committee and as a Congress to identify those costs and try to reduce those costs as opposed to some of the proposals that have come from the left that would actually dramatically increase those costs. And I think that is a point of bipartisanship as well.

And just one last note, I would say that if we are going to be effective in fixing the housing crisis we have in America, we have to make it bipartisan, and that means working on legislation I think from the starting point to get it to the Senate and get the President to sign it. And I look forward to working with the Majority.

I yield back.

Chairwoman WATERS. Today, we welcome a distinguished panel of witnesses to discuss issues around the U.S. housing stock: Ms. Diane Yentel, president and CEO of the National Low Income Housing Coalition; Ms. Adrianne Todman, CEO of the National Association of Housing and Redevelopment Officials; Mr. Steven Lawson, president of the Lawson Companies, testifying on behalf of the National Association of Home Builders; and Mr. Daryl Carter, founder, chairman, and CEO of Avanath Capital, testifying on behalf of the National Multifamily Housing Council and the National Apartment Association.

Witnesses are reminded that your oral testimony will be limited to 5 minutes. When there is one minute left, a yellow light will indicate that you should wrap up your testimony.

And without objection, all of your written statements will be made a part of the record.

Ms. Yentel, you are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF DIANE YENTEL, PRESIDENT AND CEO, NATIONAL LOW INCOME HOUSING COALITION

Ms. YENTEL. Thank you. Chairwoman Waters, Ranking Member McHenry, and members of the committee, thank you for the opportunity to testify today.

On behalf of the National Low Income Housing Coalition (NLIHC), I commend Chairwoman Waters for your leadership on the Housing is Infrastructure Act of 2019. The investments proposed are badly needed and long overdue.

Our country's affordable housing crisis has reached historic heights, most harming the lowest-income people who are in less than the poverty line or 30 percent of area meeting incomes. Nationally, we have a shortage of over 7 million homes affordable and available to these lowest-income people.

In other words, there are fewer than 4 homes affordable and available to every 10 of the lowest-income seniors, people with disabilities, or families with kids. No congressional district has an adequate supply of available rental homes affordable to its lowest-income residents. As a result, nearly 8 million of the lowest-income renter households pay more than half of their incomes towards housing and over half a million people in our country have no homes at all.

The private market cannot on its own meet the housing needs of the poorest renters. Without government intervention, decent and affordable homes cannot be reliably built, operated, and maintained at a price that the lowest-income households can afford. Federal subsidies are necessary but funding for such subsidies has been declining for decades. In addition to the tremendous need to produce homes affordable to the lowest-income people, we must preserve our country's existing affordable housing infrastructure.

Public housing, home to over 2½ million low-income people, plays a critical role in addressing America's affordable housing needs. Congress has underfunded public housing for decades. Between 2000 and 2016, funding for public housing repairs was cut in half.

With limited funding, public housing agencies are unable to make needed repairs to preserve these homes and these investments. Our country loses 10,000 to 15,000 public housing apartments annually to obsolescence or decay, and other units fall into deep disrepair. The funding needed to address capital repairs in public housing is estimated to exceed $50 billion today.

An infrastructure spending package is an opportunity for Congress to respond. Like roads and bridges, affordable housing is a long-term asset that helps communities and families thrive. Investments in affordable homes increase economic mobility, strengthens communities, creates jobs, and lifts local economies.

NLIHC strongly supports Chairwoman Waters' Housing is Infrastructure Act and its proposed investment of $5 billion to expand the National Housing Trust Fund, which would address the underlying cause of our affordable housing crisis, the severe shortage of homes affordable for the lowest-income people.

The Housing Trust Fund's first allocation of $170 million has allowed States to build or preserve 160 projects with over 1,900 Housing Trust Fund-assisted homes, housing our country's most vulnerable people: those previously experiencing homelessness; youth exiting foster care; survivors of domestic violence; people with disabilities; seniors; veterans; and others.

Funding for this successful and necessary program should be expanded to no less than the $5 billion proposed by Chairwoman Waters. We strongly support the chairwoman's proposal to invest $70 billion for the public housing Capital Fund. This investment could quickly be used to repair America's deteriorating public housing infrastructure by fixing leaky roofs, replacing outdated heating systems, and remediating mold to improve the health and living conditions for millions while creating local jobs and protecting a key piece of America's affordable rental housing stock.

And we strongly support the proposed $2 billion to address critical housing needs in rural and tribal areas that have some of the country's most severe housing needs.

As infrastructure bills move forward in Congress, NLIHC will monitor and oppose proposals attempting to increase income levels targeted by existing subsidized housing programs or to create new programs to subsidize middle-income market-rate housing.

Using scarce Federal dollars on market-rate housing is misguided and wasteful. In most areas of the country, the private market meets these needs. Where it doesn't, the Federal Government's role should be to incentivize or require local communities to decrease regulatory and zoning barriers to private sector development.

Chairwoman Waters' CDBG set-aside proposal is a good step towards creating effective incentives. Thank you for the opportunity to testify before you today. I look forward to any questions you may have.

[The prepared statement of Ms. Yentel can be found on page 137 of the appendix.]

Chairwoman WATERS. Thank you, Ms. Yentel.

Ms. Todman, you are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF ADRIANNE TODMAN, CEO, NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS

Ms. TODMAN. Good morning, Chairwoman Waters and Ranking Member McHenry. Thank you for inviting me to talk to you today about public housing and the importance of Housing as Infrastructure.

Last year, the National Association of Housing and Redevelopment Officials (NAHRO) celebrated its 85th anniversary as a membership organization. Our members represent over 70 percent of the agencies that actually administer public housing, HOME and CDBG across the country. America's public housing is an integral component of our nation's infrastructure; it is home to almost one million families including more than 360,000 families with children and more than 315 senior households.

We owe it to those families, children, and veterans, and also our homeless individuals who need access to those units, and people who are struggling with housing affordability, to preserve those units.

One might ask, how did we get here as it relates to the condition of public housing? Over the years, and as the public housing program rules changed, the rents of the families who lived in public housing could no longer sustain the operating costs of the units. Congress then authorized the provision of operating assistance which also could not keep up with existing costs. Unfortunately, funding needed to address the capital needs of this important housing portfolio has never truly been realized and we are now bearing witness to the consequences of those decisions.

The Capital Fund is provided annually to public housing agencies for the development, financing, and modernization of public housing developments. Housing authorities use this money to repair and improve their public housing sites, address deferred maintenance needs, and replace obsolete utility systems.

While we are extremely grateful for the increased appropriations that were made in 2018 and 2019, the current appropriations levels are just not keeping up with costs. Extrapolating from HUD's 2010 capital needs assessment, we join our sister association, the Public Housing Authorities Directors Association (PHADA), in estimating the capital needs backlog to be upwards of $70 billion, and this is even after considering contributions made by the Rental Assistance Demonstration Program (RAD) and the Housing Choice Program.

We applaud the inclusion of $70 billion in Chairwoman Waters' housing infrastructure bill for the public housing program. Public housing is not just infrastructure, it is also an economic engine. Every dollar that's spent on public housing produces an additional $2.12 in indirect economic activity.

We also recommend to the committee that it consider investments into the HOME program, which has created more than a million units of affordable housing and provided direct rental assistance to more than 356,000 families across the country. We encourage you to consider including $5 billion into the HOME Program.

In order to prepare for the natural disasters that impact our housing infrastructure, we need to have both a firm plan to ensure resilience as well as a path back for when our housing is damaged or destroyed. We are pleased to see that the proposed legislation acknowledges the role that natural disasters play in interrupting housing affordability in communities across the country.

Investing in affordable housing, particularly the public housing portfolio, truly is an investment in people and it is a cost-saving mechanism that prevents additional expenditures downstream. In fact, a 2016 study found that living in subsidized housing as a teen was positively associated with adult earnings. The research also found that subsidized housing was associated with reduced likelihood of incarceration.

Another 2015 study found that older adults who were able to access housing after experiencing homelessness had lower rates of emergency hospital visits and reduced overnight hospitalization.

And investing in people is what this conversation is really about. Without this investment, there is a generation of children who will not have stable housing, who may not have opportunities and become, as Raj Chetty has also said, the "lost Einsteins" in our country, folks who would have had an opportunity but for destabilization.

It is that part of our work that inspires housing professionals across the country to get out of bed every single day and go to work even in the face of impossible decisions, and choices they have to make to keep public housing stable. And it is that reason that this committee and this Congress should be compelled to look at not just public housing as part of infrastructure, but also the entire affordable housing continuum across the country. I look forward to your questions.

[The prepared statement of Ms. Todman can be found on page 129 of the appendix.]

Chairwoman WATERS. Thank you, Ms. Todman.

Mr. Lawson, you are now recognized for 5 minutes to present your testimony.

STATEMENT OF STEVEN LAWSON, PRESIDENT, THE LAWSON COMPANIES, TESTIFYING ON BEHALF OF THE NATIONAL ASSOCIATION OF HOME BUILDERS (NAHB)

Mr. LAWSON. Chairwoman Waters, Ranking Member McHenry, and members of the committee, thank you for the opportunity today to testify on this very important subject.

My name is Steve Lawson and I am chairman of the Lawson Companies. I am proud to say, I am a third generation homebuilder and apartment developer from Virginia. Owning and renting a suitable home is increasingly out of financial reach for many Americans. NAHB strongly believes that increasing the inventory of new single family and multifamily housing is key to improving housing affordability.

Factors such as regulations, availability of lots, lack of skilled labor, cost of building materials, and financing account for the increased building costs and insufficient supply. One aspect that directly limits the ability to develop affordable housing is the financing of it.

Construction financing is commonly misunderstood and propagates a pervasive misconception that builders prefer to develop luxury homes and rentals. However, as I cannot stress enough, the builders would gladly serve families at all income levels if they could simply make the numbers work.

Developers must be able to demonstrate that projected revenues will be sufficient to cover the loans. Builders will be unable to secure financing to develop a project if the projected rents or sales prices are too low to cover the expenses.

As a small business owner operating in a heavily regulated industry, I understand how difficult and often costly it is to comply with the myriad of government regulations. It is particularly noteworthy in an industry where margins are thin and consumer sensitivity to price fluctuation is so acute.

Although regulatory reform will help with housing affordability, it is important to note that NAHB does not believe that all regulation is bad. There is a role for sensible regulation to protect health, safety, and fair housing rights. However, when it accounts for 24 percent of the cost for a single family home, or 32 percent of the cost of a multifamily project, affordability needs to be part of the larger discussion when discussing or updating regulations.

Impact fees are an example of imposed costs that have a direct negative effect on housing affordability. Impact fees are imposed often upfront at the time of a building permit as a price of admission for developments to be approved by local governments.

These fees are typically dedicated to specific public use like sewer, water facilities, parks, roads, or schools. Impact fees affect affordable and market rate development alike.

The premise of impact fees is that development, especially residential development, does not pay for its fair share of the bargain imposed on the local government. However, NAHB's research shows this premise to be false. The impacts of building 100 rental apartments include $11.7 million in local income, $2.2 million in taxes for local governments, and 161 local jobs.

Results show that new homes generate enough revenue for local governments to not only cover their current expenses but to service and pay off all the debt incurred to invest in these public structures in one year.

NAHB applauds Chairwoman Waters for starting this important discussion on the role that additional costs such as impact fees play in housing affordability. NAHB supports funding for important housing programs such as the Rural Housing Programs and the Housing Trust Fund. We applaud the innovative ideas to incentivize lowering of impact fees and streamlining of the development process in your legislation, the Housing is Infrastructure Act of 2019.

We look forward to working with you to address the unmet demand for low-income rental housing. While regulatory reform will help us lower developing costs, it is financially infeasible to construct new affordable rental units without a Federal subsidy, and that bears repeating: It is financially infeasible to construct new affordable rental units without a subsidy.

Thank you again, Chairwoman Waters, for the opportunity to testify. We appreciate you convening this very important hearing to explore strategies for removing barriers to affordable housing development. NAHB stands ready to work with you to achieve thoughtful and effective policies to expand the availability of affordable housing.

[The prepared statement of Mr. Lawson can be found on page 114 of the appendix.]

Chairwoman WATERS. Thank you, Mr. Lawson.

Mr. Carter, you are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF DARYL J. CARTER, FOUNDER, CHAIRMAN, AND CEO, AVANATH MANAGEMENT, LLC, TESTIFYING ON BEHALF OF THE NATIONAL MULTIFAMILY HOUSING COUNCIL AND THE NATIONAL APARTMENT ASSOCIATION

Mr. CARTER. Good morning. Chairwoman Waters, Ranking Member McHenry, and members of the committee, thank you for this opportunity to speak on behalf of the National Multifamily Housing Council (NMHC) and the National Apartment Association (NAA) on the apartment industry's infrastructure needs.

I am the chairman and CEO of Avanath Capital, an apartment firm with $1.7 billion in assets under management. Avanath is somewhat unique in that we focus exclusively on affordable and workforce housing in low-income communities where renters have high cost barriers.

More than half of our properties are located in communities of color. We applaud Chairwoman Waters for recognizing that housing must be a key component of any infrastructure initiative Congress and the Administration undertake.

Before I begin my testimony, I think it is important to understand the context within which the apartment industry is operating. As you know, the U.S. has a serious shortage of housing affordable to low- and middle-income households. That is in part because demand for rental housing is at historic levels.

Since the mid-2000s, the number of rental households has increased by more than seven million, the greatest renter wave in history. To meet that demand, we need to build 4.6 million new apartments by 2030. That translates into 328,000 new apartments every year, a mark that we have only hit twice since 1989.

Our greatest need is in the low- and middle-income levels, which is all but impossible to develop without deep subsidies. America loses an estimated 100,000 units a year to obsolescence, conversions, or demolition. And the majority of those lost units are from the lower-income housing stock, the very units we need the most, while development costs continue to escalate.

We need to look for new ways to better preserve existing units and to cut development costs for new construction. That is why housing must be considered a vital element of this nation's infrastructure. Infrastructure and housing are connected in important ways. As communities struggle with inadequate transportation, water, sewage, and other public systems, they are increasingly looking for ways to pass infrastructure improvement costs to developers by making project approvals contingent on infrastructure investments.

This, of course, translates into higher rents for a household. My written testimony includes a number of examples of how housing and infrastructure interact for NMHC and NAA members. But let me share one example from my firm, we acquire older apartment assets with older infrastructure, we make investments to mitigate life, safety, and sanitation matters.

In one project, for example, we provided all new piping and fixtures to make water and sewer flow more efficient. Nevertheless, we continue to have sewer backups because the municipal trunk lines feeding the property are too small. In many cases, these systems are 50 to 100 years old.

Investment in public infrastructure will also facilitate more affordable housing preservation. But that alone is not sufficient to address our affordable housing shortage. While apartment completions have increased in recent years, it is virtually impossible to develop and renovate units at the rent levels that low- and middle-income households can afford.

The cost to develop apartments has escalated dramatically in recent years. Land, material, and labor costs have increased significantly. But regulatory barriers have also raised the cost of housing; research shows that 32 percent of multifamily development costs are attributable to local, State, and Federal initiatives.

Developers must contend with things like outdated zoning laws, unnecessary land use restrictions, and arbitrary permitting and parking requirements. On top of that, many localities impose impact and inspection fees, inclusionary zoning mandates, and rent control rules.

Easing these regulatory and other policy obstacles is critical as policymakers explore solutions that close housing affordability and look for ways to make serious investments in our nation's infrastructure. Madam Chairwoman, we commend you for holding this hearing and for your work on the Housing is Infrastructure Act of 2019. Housing and infrastructure are both critical nationwide needs.

Policymakers at every level of government have a role to play in removing obstacles to housing production, easing costs, and creating supporting environment providing apartment homes.

The apartment industry is committed to providing high-quality and attainable housing for all Americans. Thank you very much.

[The prepared statement of Mr. Carter can be found on page 64 of the appendix.]

Chairwoman WATERS. Thank you very much. I now recognize myself for 5 minutes for questions.

I am going to address this to Mr. Lawson.

Mr. Lawson, 60 percent of U.S. cities have more than 25,000 residents in the imposed impact fees, which are fees on housing developments to fund other infrastructure projects.

Dwindling Federal resources for infrastructure improvements have pushed State and local governments to turn to impact fees to raise revenue for this purpose. This shift is raising costs on home builders as well as new renters and home buyers, ultimately making houses less affordable.

In California alone, impact fees average $23,455 for a single family home and $19,558 for a multifamily unit, which is almost 3 times the national average. My bill aims to address these challenges by providing funds for cities to incentivize or eliminate impact fees and responsibly streamline the process for the development of affordable housing. What are your views on impact fees?

Mr. LAWSON. Thank you for the question, Chairwoman Waters. My view, as you stated very well, is that impact fees are high, getting higher, and not often used toward the things for which they are intended to be used.

We also operate at—each one of our developments operates at what we call the margin of feasibility. So, every dollar in additional fees that we pay reduces the number of households we can serve.

Very simply stated, higher impact fees directly affect the number of units that we can build, that affects the feasibility of those units especially at the lower-income levels.

Any effort that this committee can make or that Congress can make to lower those fees, those impact tap fees and other fees, would be very much appreciated in the industry. We also want to make sure that the incentive is done in a way such that the fees that are reduced for affordable units are not transferred to other units in the marketplace, therefore making the affordability problem worse for other renters and other buyers.

Chairwoman WATERS. Thank you very much. I would like to ask you another question about the departments of city governments, for example, who have the responsibility for reviewing the plans that are put before them for the development of housing, and how there seems to be a lot of flexibility in determining what other kinds of requests can be made of developers that cost them more money, for example, the moving of a pole, this, or that, what are those experiences like?

Mr. LAWSON. It is a very frustrating experience for us on the ground, because often those requirements are not very specifically spelled out and that is a process, in many cases it is a process and negotiation with the local municipality.

And they very rightly have their goals and the things they would like to do for their community. However, one new community cannot bear the cost of 5 decades or more of neglect in public facilities.

Chairwoman WATERS. Thank you very much. The Chair now recognizes the distinguished ranking member for 5 minutes for questions.

Mr. MCHENRY. Thank you, Chairwoman Waters. And thank you all for your testimony. This is a very important issue to my constituents and all of our constituents represented on this committee and even those that are not on the committee.

Mr. Carter, I want to go directly to your decision-making. How many States are you invested in?

Mr. CARTER. We operate in 12 States.

Mr. MCHENRY. Twelve States, okay.

Mr. CARTER. Yes, sir.

Mr. MCHENRY. But you have to make decisions on which States to operate in?

Mr. CARTER. Yes, sir.

Mr. MCHENRY. I would guess that is in part the economy, am I correct? How do you make that decision on which States to invest in?

Mr. CARTER. Well, we invest primarily in States where there is job growth, where there is lots of demand for housing, and also where there are people moving into that area.

Mr. MCHENRY. Okay. Now, the question of the local appetite to either enable you to fix up these properties and make them ready for folks to have safe housing, walk me through that decision on a local zoning effort, regulatory effort and how that goes into your decision-making.

Mr. CARTER. Well, we operate in about 50 different municipalities across the country, primarily on the two coasts.

And very often when we go into properties, particularly where we are acquiring and preserving an affordable property working with that local government, we often will buy a tax credit property that may have Project-based Section 8 over it where we may have 6 different regulatory agreements on that particular property that we have to navigate with 6 different public housing agencies.

So very often, in our business, I spend a lot of time, a considerable amount of my time dealing with local agencies.

Mr. MCHENRY. Okay. But that question of your experience with these agencies, that will determine whether or not on the margin you will invest in a project, is that correct?

Mr. CARTER. Yes.

Mr. MCHENRY. So if you lighten that barrier for you to more affordably put your money at work, would you do more projects?

Mr. CARTER. Yes, we would. And more importantly, I think the key part of it is that when people look at a company like ours where we have $1.7 billion of assets under management, we partner with institutional investors.

And those institutional investors, most of them are public pension funds. So when I look at investing in what we do, I think of my sister who is a teacher in the State of Michigan, and when we take on a specific property, we are looking at the risk of how long it takes to do and the riskiness of it.

So you have many public pension funds where the workers are dealing with the affordability crisis themselves, but then in making the projects that we invest in more riskier when you have many of these local mandates, it creates risks for them on the other side.

Mr. MCHENRY. If you would do like a quick back of the envelope calculation for me, so you buy a small apartment complex, right? Give me a number of units.

Mr. CARTER. Probably our average size is 150 apartments.

Mr. MCHENRY. Okay, 150 units. Roughly speaking, what type of investment do you make per unit to get that up to your standards?

Mr. CARTER. A range of $7,000 to $20,000 a unit.

Mr. MCHENRY. $7,000 to $20,000.

Mr. CARTER. Yes.

Mr. MCHENRY. $20,000 a unit is a serious investment.

Mr. CARTER. Yes, it is.

Mr. MCHENRY. Okay.

Mr. CARTER. Of private capital.

Mr. MCHENRY. Private capital.

Mr. CARTER. Yes, sir.

Mr. MCHENRY. So what if you took that number and made it about $50,000? Would that speak to the deficiency of the unit or would that speak more to the inefficiency of the dollars?

If I told you we are going to spend $50,000 on the housing unit in a similar apartment complex, would you tell me I was making a bad investment or do you think that would be a wise investment?

Mr. CARTER. Well, it depends on what the situation was. If it is a really old and dilapidated situation, it may need that.

Mr. MCHENRY. The bill that we have here today will spend between $50,000 and $55,000 per public housing unit in America today. That would tell you that is about 25 percent of the median home value sold last year. That is an extraordinary amount of money and that is why I want to talk about the efficiency of these dollars in this hearing. Thank you. I yield back.

Chairwoman WATERS. Thank you very much. The gentlewoman from New York, Ms. Velazquez, is recognized for 5 minutes.

Ms. VELAZQUEZ. Thank you, Chairwoman Waters, and Ranking Member McHenry, for holding this important hearing. I just would like to say that I understand what you are both saying, Mr. McHenry and Mr. Duffy, that we need to help create more affordable housing, we need to work with our partners at the local level.

But the fact of the matter is that in my City, New York City, Mayor de Blasio and the city council have made numerous concessions and renegotiated labor contacts and zoning requirements, but that doesn't take away the reality that my town still faces the largest backlog in the country, more than $36 billion, almost three quarters of the entire nation's needs.

So while you are right, we need to work with our State and local partners, that does not mean that we do not have the responsibility here. In fact, the state of public housing in our nation is a direct result of the Federal disinvestment that has taken place in our nation for years.

We need to put more money into the Public Housing Capital Fund, the Section 8 program, and affordable housing programs. So I look forward to working with both of them to make sure that we invest wisely.

Ms. Yentel, when we discussed providing more, better funding for public housing, one of the main arguments we consistently hear from the other side of the aisle is that bureaucratic delays and mismanagement by public housing authorities (PHAs) make investment in public housing an unwise use of taxpayers' money.

However, the last time Congress included an infusion of funding for the Public Housing Capital Fund in 2009 as part of the American Recovery and Reinvestment Act (ARRA), a GAO analysis later confirmed that housing authorities used the funding in a timely and efficient manner.

Can you explain the GAO's finding and why you believe including money for the Capital Fund as part of any infrastructure package will be a wise and efficient use of the taxpayers' resources?

Ms. YENTEL. Yes. Thank you for the question. So as you say very well, the public housing capital needs backlog has reached well over $50 billion, and that is a direct result of decades of Federal disinvestment in capital repair dollars by Congress.

Between 2010 and 2016 alone, Congress cut funding for public housing capital repairs in half and that was on top of prior decades of disinvestment as well. So today, the public housing capital needs are severe and investment in repairing public housing is badly needed.

PHAs can spend money when they have it available to them and they spend it efficiently and effectively. As you said, the last time we had an infusion of funding for public housing capital repairs was under ARRA, and the GAO studied how PHAs were able to use those funds and found that the vast majority of them used them within the time limits that were set.

NICHA in particular does well with spending its capital expenditures: the last four capital expenditures that it received, it spent well in advance of deadlines required by HUD.

Ms. VELAZQUEZ. Thank you. Ms. Yentel, a recent study produced by the Council of Large Public Housing Authorities showed that for 6 PHAs around the country, $4.5 billion in direct capital spending between FY 2013 and FY 2017 generated an estimated $7.6 billion in economic activity and supported 7,600 full-time jobs.

Moreover, the $4 billion in capital funding provided by the ARRA generated over $12.5 billion in economic activity. Can you explain how investing in public housing creates jobs and acts as an economic generator by leveraging public and private sector resources?

Ms. YENTEL. Yes. There are multiple studies that share statistics as you just did that show that if we were to spend $25 billion in repairing public housing, it would generate close to $80 billion in new money in local economies.

And I think it is important too to note that funding for public housing repairs has an added benefit of providing not just jobs, but jobs for residents of public housing and other low-income residents in the community through the Section 8 program that requires that when communities receive funds from HUD, they give preference for those jobs to public housing residents.

Ms. VELAZQUEZ. I yield back.

Chairwoman WATERS. Thank you.

The gentlewoman from Missouri, Ms. Wagner, is recognized for 5 minutes.

Mrs. WAGNER. Thank you, Madam Chairwoman.

Mr. Carter, you started your investment firm in 2007 to take a kind of different approach to Section 8 and affordable housing. How does your firm lift up residents of distressed communities and go beyond just developing a brick-and-mortar building?

Mr. CARTER. Thank you very much for that question, Mrs. Wagner. We view that our investment strategy is holistic. We are not investing just in brick and mortar. For instance, about half of our residents are Section 8, and of our Section 8 residents, about 95 percent work, and many of those are two-income families. They just happen to live in a very expensive place like Southern California.

And so, what happens in many of our communities, particularly those that have kids, is when the school bus pulls up, you have the properties—all of these kids and what we do in a number of our communities where we have lots of kids, is we do afterschool programs that really provide a place for the kids to go that is safe afterwards.

And we can afford to make this investment and things like that if in fact—and we find that it lowers our operating cost and many other things. So, we take a holistic approach to it.

Mrs. WAGNER. It is a great model. The Tax Cuts and JOBS Act that we passed in the last Congress in 2017, created the Opportunity Zone Program. This tax benefit is designed to drive economic development and create jobs by encouraging long-term investments in economically distressed communities.

The St. Louis region where I am from has 40 designated opportunity zones, including some in Missouri's 2nd District. I would like to submit this map, Madam Chairwoman, for the record.

Chairwoman WATERS. Without objection, it is so ordered.

Mrs. WAGNER. Earlier this year, you launched a fund to invest in one of the nation's more than 8,700 designated opportunity zones. How will the tax benefit help your firm continue its mission?

Mr. CARTER. Well, we are very excited about opportunity zones, because it really made projects that maybe were not financially feasible before that benefit, feasible. We believe it adds about 4 percent of return which allows us—we had invested 4 percent more in return.

Mrs. WAGNER. Right.

Mr. CARTER. We own about 15 communities today that are in opportunity zones. And so, one of our strategies is to take a number of those communities where they are already affordable and add more density, add more apartments there.

We have communities—we have a community in Oakland which is really close to downtown Oakland, an opportunity zone that stays at 100 percent occupancy and we have a waiting list of 200 people. So, it would be great to add more units to a property like that.

Mrs. WAGNER. That is fantastic. So, you have seen really positive result as a result of—

Mr. CARTER. Absolutely.

Mrs. WAGNER. Standing up these opportunity zones based solely on the fact that we already passed and have signed into law the Tax Cut and JOBS Act. Is that correct?

Mr. CARTER. Absolutely.

Mrs. WAGNER. Are there other multifamily firms planning to participate in the new opportunity zone program?

Mr. CARTER. Many are, yes.

Mrs. WAGNER. Many are.

Mr. CARTER. And I do think this will help add more housing in places that we really need it.

Mrs. WAGNER. Right. And we talked I know kind of at length about the local barriers, and I just want to clarify with you, it sounds to me like the barriers in terms of overregulation and burdensome barriers are not at the Federal level. They are at the municipal level and the city level. Is that correct?

Mr. CARTER. Yes, ma'am. Most of them are at the local level.

Mrs. WAGNER. Thank you very much.

In my limited time, I want to thank you, Ms. Yentel, and the National Low Income Housing Coalition, for your support of the disaster relief legislation that Representative Green and I have joined hands on. We want to ensure that people who need money the most can get access to funding while safeguarding against fraud with the proper controls.

Can you talk briefly about how codifying the CDBG–DR program would help grantees gain access to funding more efficiently?

Ms. YENTEL. Yes. And thank you, Congresswoman Wagner, for your leadership in that area. It is very important. The CDBG Disaster Recovery grant program is the largest source of funds that local communities receive for their housing recovery needs after disasters, but without codifying CDBG Disaster Recovery legislation, Congress, HUD and communities rewrite rules after every disaster which delays the funds from being put to use.

And the legislation that you have put forward would ensure that those funds are directed towards those with the greatest needs and for the housing needs.

Mrs. WAGNER. Thank you, Ms. Yentel. Anything else you should submit for the record, I appreciate it. I am over my time, but I am so grateful for Mr. Green and for the chairwoman joining us in this endeavor.

Chairwoman WATERS. The gentleman from California, Mr. Sherman, is recognized for 5 minutes.

Mr. SHERMAN. One way to look at it is the rents are too damn high. The other way to look at it is the wages are too damn low.

We, in this room, celebrate with the Fed that we have what they consider to be a very low unemployment rate. But until we see an acute labor shortage that leads to rapidly increasing wages, we are not going to solve not only the housing problem but a host of other economic problems as well.

Transit and density related, Congress tends to fund a lot of transit and not ask a lot of questions about density and zoning. We need perhaps to involve ourselves. This is a national problem and the most important decisions are made in zoning and we do not play a role at all. My State government is beginning to play a role.

Density without transit is gridlock, but transit without density is underutilization and operating losses for the transit system. We need density near subway stations. We need subway stations near density.

One issue is just how much housing does each person need. We have a lot more square-footage in this country per person than Europe or Japan, yet we are the one with the housing crisis. It is certainly patriotic to demand that every American have a much bigger home than any European or a resident of Japan. But I see square-footage requirements per unit per person as leading to keeping working class units out of a community, another kind of exclusive zoning.

Does anyone have an opinion on how many square-feet need to be in a unit for a family of four? I am not seeing anybody jump in. So, I am going to ask you, Mr. Lawson.

Mr. LAWSON. I think we can go to the occupancy—the standard occupancy requirements and a three-bedroom unit in that case would fit the bill and—

Mr. SHERMAN. So, we should keep the standards and the system the way it is.

Mr. LAWSON. I believe the market should dictate that and actually, we build—

Mr. SHERMAN. The market is dictating that I have homeless people in every park in my district.

Mr. LAWSON. Yes.

Mr. SHERMAN. So, I am not sure we want to leave things the way they are.

Mr. LAWSON. And I am speaking—to clarify, I am speaking to affordable tax credit units, not for sale. That is a different dynamic.

Mr. SHERMAN. Ms. Todman?

Ms. TODMAN. Yes. Thank you, Congressman. I think that you raise a larger point which is how do we look at the built environment in a very innovative way so we can maximize the availability and access to affordable units.

And I would go so far as to say if you look at using technology as a means of decreasing costs and increasing affordability—

Mr. SHERMAN. The Japanese have been very innovative in the use of technology so that people can live well in a smaller space, and I would rather be living in a small Japanese unit than living in the park in Rosita or Konoba Park or Granada Hills or Sherman Oaks.

Mr. Lawson, you mentioned the importance—and we had to blindside you with this question, so, I am going to ask you to give me an answer for the record—the importance of these impact fees. See what lower impact fees, that takes money away from the city where you are building. I want you to explore with your organization, lobbying our State governments so that the sales tax on everything that goes into a unit goes to the city where the unit is being built, not where the builder's headquarters is located, not where the warehouse store is located, but where it is being built.

Because, if you want to lower impacts fee from cities, you are going to have to backfill some at least some of that, now, that is not going to solve the whole problem. We are probably talking hundreds of dollars of units and you are talking thousands, but your testimony indicates that by every few hundred dollars we reduce the cost to building a unit, we can get a few more families affordable.

I do have a question for you, one last question, how do these impact fees affect affordable and market-rate units? Are they different for a luxury building than for an affordable building?

Mr. LAWSON. I will take that last question. First, the impact fees are typically assessed on a per unit or per bedroom or per bathroom basis based on the load on the public facilities. And I can say in one jurisdiction where I built both low-income housing tax credit units and luxury townhome units, for the tax credit units, I was paying about $11,000 per unit just for the right to break ground.

Chairwoman WATERS. The gentleman from Florida, Mr. Posey, is now recognized for 5 minutes.

Mr. POSEY. Thank you very much, Madam Chairwoman, and Ranking Member McHenry, for holding this important hearing. Making housing affordable is an objective I share with members of this committee. However, housing is truly not infrastructure like we consider roads and bridges, I don't believe.

Housing has historically been provided by the private market and differs from roads and bridges where public provision has been relied upon because markets can't always provide the relief these facilities provide in an efficient way. Therefore, I think it is important to think about housing as a private good that we take a public interest in that we make provisions for the market to make sure people have access to housing as a fundamental need.

In the context of housing market supply, supply conditions are really important. If housing is restricted by unnecessary use regulations and other non-value-added regulations, that raises the price of public housing obviously, then, the price of all housing rises and not only for new housing but for existing housing.

When we drive up demand without addressing the cost of building housing, we may be actually making housing less affordable because we drive up the price across the board. That is why it was pointed out at our first affordable housing committee hearing the role of local land use regulations in restricting supply in driving up prices.

I introduced, and with this committee's help passed, an amendment in the committee to provide incentives for local communities to ease restrictions on land use to help increase the supply. I think that a carrot is probably better than a stick. And one of the fundamental challenges that we face today obviously is creating affordable multifamily housing or apartments. Changing demographics seem to drive that need.

While none of us would support development of any housing that is free of reasonable, prudent, and healthful building codes, we must ask ourselves if we can make housing affordable in a regulatory environment that pushes up cost to this extent. Costs stem from what many consider as excessive standards. For example, a survey respondent to the study conducted by the National Multifamily Housing Council and the National Association of Home Builders estimates that recent changes to the international and energy conservation code have the potential to drive up costs by much more than the savings in the utility bills. And I hope we can all agree that does not help those living in affordable housing at all.

And, Madam Chairwoman, I would ask unanimous consent to enter this survey into the record. As we move forward on affordable and fair housing, I hope members of the committee will join me in keeping a laser focus on opportunities to offer supply side solutions that make housing truly affordable.

My first question is for Mr. Carter. America's housing markets are changing just as our population is changing more broadly. For example, rentership has remained at historic highs since the financial crisis. Our millennials, the largest generation since the baby boomers, are entering the workforce and choosing a lifestyle and the flexibility it affords over home ownership.

How can we update and improve housing policy to reflect the needs of Americans now and in the future?

Mr. CARTER. Well, I will give you—thank you very much for that question. One very quick example that I think could move the needle as low hanging fruit, when I go to many of our communities, I go at night and just look at the parking. And we have a lot of empty spaces and simply put, with ride sharing and other things and Uber, we don't have as many cars at our communities and I think many of our parking requirements are outdated.

And if I could take the land on some of my communities and add more apartments, it would be a great thing, but that is just one innovation which has changed with the change in driving.

Mr. POSEY. Well, that was one of the suggestions offered at a hearing that the Chair called on homelessness, requiring two parking places for a homeless person. I mean, if they don't a home, the odds are they don't own two cars. It is just common sense.

According to Harvard's Joint Center for Housing Studies, in 2015, more than one-in-four renter households, approximately 11.1 million, paid more than half of their income in rental housing.

Please share with the committee your specific examples of the ways in which the Federal Government can update our policies to provide a better—

Chairwoman WATERS. The gentleman from Missouri, Mr. Clay, the Chair of our Subcommittee on Housing, Community Development, and Insurance, is recognized for 5 minutes.

Mr. CLAY. Thank you, Madam Chairwoman.

Ms. Yentel and Ms. Todman, a question for you, I know you can't see me. These two are in front of me.

Ms. YENTEL. We can see you, Congressman.

Mr. CLAY. All right. But the last comprehensive infrastructure spending package was the American Recovery and Reinvestment Act of 2009 which acknowledged the importance of affordable housing as part of our national infrastructure and provided $4 billion to address public housing capital needs.

I understand those firms generated an additional $12.5 billion in economic activity. With such a successful precedent, the recent history in mind, would you agree that investing in public housing should be a vital component of any future infrastructure spending package?

Ms. TODMAN. I could not agree more, Congressman, and that is the basis of my testimony today. I would also add to that that housing authorities across the country—all 3,000 of them—not only spent that money quickly but spent it well.

And of the $4 billion, $3 billion was given out via formula, and the other $1 billion was given out to support green retrofits and other energy efficiency projects for very low-income housing products, and they did a great job. The industry stood up, and that is why I feel very confident, having run a housing authority in the past myself, that this industry is prepared and ready for an infusion of dollars to really deal with the backlog of capital needs that they have.

Mr. CLAY. Thank you.

Ms. Yentel?

Ms. YENTEL. I agree and I would just add on that certainly affordable housing investments belong in an infrastructure spending package just like roads and bridges. Our country's affordable housing infrastructure is a long-term asset that assists with families and communities in thriving. It creates jobs. It lifts local economies.

So, certainly, investments in an infrastructure package should include our affordable housing infrastructure.

Mr. CLAY. As a follow-up question, how do you think the RAD program works for public housing authorities? Have you seen any successes?

Ms. TODMAN. I will say that over the past decades, because of the Federal disinvestment, housing authorities had to rely on all the tools in the toolkit and RAD became a recent tool. And I think we have reached over 110,000 units that have converted into the RAD program. RAD is simply just converting the asset from one program inside of HUD to another program inside of HUD. It creates, not just some regulatory relief but also creates stability by leveraging private funds to do the capital improvements that are needed.

There have been a number of very successful RAD experiences across the country. I will lift up the El Paso housing authority and the Austin housing authority—

Mr. CLAY. Yes.

Ms. TODMAN. —which have done extraordinary jobs in terms of using RAD to improve the units that they own.

Mr. CLAY. Great.

Ms. YENTEL. I would just add to that that RAD is an important innovation and there are PHAs that are using it for its purpose and to their advantage in order to leverage private dollars to invest in the capital need repairs of public housing.

But we should also note that: one, for many public housing units, RAD will not be feasible, because the finances just don't work given the level of repairs that are necessary; and two, often when we talk about private investments going into public housing repairs through the RAD program, they are not often actually private. There are other public resources like HOME dollars or CDBG dollars or low-income housing tax credit equity.

And while it is good and important to be able to use those funds to repair public housing, those dollars could be used for their intended purposes of building new homes affordable for low- and very low-income people. So, where we to instead invest in the capital repair dollars for public housing on its own, it would free up those resources to do what they were intended to do, which is build, to be additive, to be creating additional affordable housing units.

Mr. CLAY. Okay. Thank you.

Mr. Carter or Mr. Lawson, any thoughts on RAD?

Mr. CARTER. Well, one thought is that RAD is administered through public housing authorities, and as a company, we deal with about 45 of them and they are all different and they all have various capabilities. And so, that is one of the challenges with the fact that many of HUD's programs are administered through public housing authorities and there are 4,000 of them and they have varying levels of ability to execute.

Mr. CLAY. Thank you. I yield back.

Chairwoman WATERS. The gentleman from Missouri, Mr. Luetkemeyer, is recognized for 5 minutes.

Mr. LUETKEMEYER. Thank you, Madam Chairwoman.

Good morning, ladies and gentlemen. A recent study by the National Multifamily Housing Council and the National Association of Home Builders, which Mr. Lawson and Mr. Carter represent this morning, found that an average of 32 percent of multifamily development costs are attributable to complying with State, local, and Federal regulations.

That is very concerning to me, and this morning, I want to talk a little bit about some of the bank regulations that could be causing the ability of individuals to have access to funds and restricting their ability to those funds, what they may have.

Mr. Lawson, you represent the National Association of Home Builders. And back in December, we had—I was Chair of the Financial Institutions Subcommittee and we had a hearing, and a representative from your association appeared and testified, and I asked the question with regards to the increased cost and what kind of effect it would have on people with regards to access to credit.

And he said—and we since have found it on your website—that apparently for every $1,000 increase in the cost of a home loan, 100,000 people no longer have access to credit and therefore have no ability to own a home, the American Dream. And so, I am very concerned because with the new FASB rule, the regulation called CECL that is causing home mortgage folks to assess the risk of their home mortgage portfolio and change the way they reserve is going to have a dramatic effect on homes being able to be built or purchased which is going to have—and especially on low- and moderate-income folks, is going to have a dramatic effect on those folks.

I have talked to the new Director of FHFA and he is trying to get us some numbers. So, my question to you this morning is, have you looked at CECL and the effect it may have on the totality of the home mortgage business across the country?

Mr. LAWSON. I cannot say I can speak personally about the specifics of CECL, but I will say that obviously the mortgage business, the mortgage origination business has changed very dramatically over the last several years.

In fact, many companies that have been stalwarts in that business simply decided to get out of the business. That decreases competition and will therefore raise costs which cost to the consumer meaning less affordability, and less home building.

Mr. LUETKEMEYER. Mr. Carter, you represent the Multifamily Housing Council. Have you looked at CECL and what effect it may have on multifamily housing availability?

Mr. CARTER. No, I have not. We have spent a little bit more time looking for instance, at CRA—

Mr. LUETKEMEYER. Yes.

Mr. CARTER. —which certainly has an impact on our business because we have a number of investors that are banks that invest through CRA via the fact that it fits within their affordability requirements.

And so, we would like to see more modernization of that, because some of the rules of CRA are outdated. The other thing is that we operate sort of proprietary equity funds that we have to register now with the SEC as a result of the Dodd-Frank Act, which probably adds another 10 percent to our cost when we launch a new fund.

Mr. LUETKEMEYER. Have you done a number or a study to show how much increased costs restrict the ability of people to finance or go out and build multifamily housing? Have you done any studies on that, see where the cost line is so that at a certain point, people no longer can afford to build a multifamily housing?

Mr. Lawson?

Mr. LAWSON. I can't say that we draw a line in the sand, but that is what we do every day, is we are drawing lines based on the moving variables that the variables go up and down every day. Interest rates or one of those costs and all of these other things, rents we can charge, so, any movement there reduces, any upward movement reduces affordability.

Mr. LUETKEMEYER. Okay.

Mr. Carter, you helped segue into my next question with regards to CRA. To me, it is concerning. The original intent is worthwhile and it did a good job for a number of years. Now, it is sort of becoming antiquated. It is kind of outdated with the ways things are working today. Can you give me some ideas, because you have already started down that path of things you would like see different with the modernization of CRA?

Mr. CARTER. Well, many of the CRA regulations for banks are based on kind of the old branch banking system and assessment districts. And when you look for instance at Internet banking where it comes from anywhere, everywhere, we think one of the things which would be helpful would be to modernize and to focus on the activity of what gets invested as opposed to where.

Mr. LUETKEMEYER. Interesting. Thank you very much.

I yield back.

Chairwoman WATERS. Thank you.

The gentleman from Georgia, Mr. Scott, is recognized for 5 minutes.

Mr. SCOTT. Thank you very much, Madam Chairwoman.

This is a very timely and very interesting hearing, but let me start with this. I want to ask each of you how can we even begin to intelligently address these housing infrastructure needs particularly as it affects middle- and lower-income people when the Trump Administration is proposing to zero out the budget of the one major instrument that we have to address this, which is the community development block grants program.

Now, if we don't put that on the table and if we don't put pressure on this Administration to cut it out, it is insane. All of us realize that this is at the core a financial problem. It is a money problem. And when you have Dr. Ben Carson, I respect him, but every time he comes before the committee, I ask him, why and how.

Now, I would like for each of you to give us your indication, particularly Ms. Todman and Mr. Lawson. This is a financial issue. This requires money, and here, you have the Trump Administration wanting to cut out and zero out $8.2 billion at this great need when one of the fastest growing groups that need it are our veterans. How cruel can you be?

So, tell us. How can we intelligently deal with this? Does it upset you all the way it should?

Ms. TODMAN. Well, yes, thank you, Congressman. I think that everybody here at the table will agree that the White House's proposal was less than ideal when it came to infusing funds into the affordable housing programs.

Our members rely on CDBG, HOME, and the Capital Fund and, we have been disappointed year after year to see that those programs have been zero-funded. But we have been thrilled that this Congress has done the right thing and come back and seen what the needs are at the local level and the national level. We are hoping that will happen again during the 2020 budget cycle. We were very excited about what happened in 2018 and 2019, also.

I think that this issue requires a sense of leadership. It requires leadership at every level, that is why we are excited to be here and see the chairwoman exhibiting leadership and having this conversation. And so, while these proposals zero out important programs for localities, we look to this Congress to do the right thing.

Mr. SCOTT. All right.

Mr. Lawson?

Mr. LAWSON. Yes. Great question. NAHB, of course, opposes the zeroing out of the CDBG as well as the HOME. Those are important resources. They are not all the resources. We need more resources obviously.

While it is not under the jurisdiction of this committee, the Low Income Housing Tax Credit is probably the most fundamental resource for creating affordable housing. We certainly oppose that. It is a financial issue and we should do everything in our power as an industry to preserve the funding.

I think this issue is gaining a lot more traction and a lot more attention nationwide. I know it is locally in the areas where I work, so that is a positive sign.

Mr. SCOTT. Very good.

Mr. Carter and Ms. Yentel?

Ms. YENTEL. Yes. If I could, thank you. We share your concern and your outrage over the proposed cuts that go much deeper and broader than eliminating CDBG. The Administration would eliminate the National Housing Trust Fund, would eliminate public housing capital repair dollars at a time when there is such a substantial need.

Like Ms. Todman, we are pleased that Congress has not only rejected those proposals but actually increased spending by 10 percent for the first time in many, many years. This is an important first step, but we have a long way to go to make up for decades of disinvestment in these programs.

And we are still under the very tight spending caps required under the Budget Control Act, which is why it is so important to look for opportunities outside the appropriations process to invest in affordable housing like through an infrastructure spending package, through GSE reform, and through other methods.

Mr. SCOTT. Mr. Carter?

Mr. CARTER. The quick answer is we will invest private money if we can get more private money if we can get more obstacles reduced.

Mr. SCOTT. Thank you, Madam Chairwoman.

Chairwoman WATERS. The gentleman from Michigan, Mr. Huizenga, is recognized for 5 minutes.

Mr. HUIZENGA. I appreciate that, Madam Chairwoman, and I would like to welcome the witnesses.

My family has had a long history in home building and construction. My family was one of the founding families of our local home builders association. I still own our third generation sand and gravel operation. A cousin owns our ready mix concrete company, all small businesses.

But we have had the opportunity to provide hundreds of dwellings. And we have looked at multifamily housing as well. And one of the concerns that we have had is working with local municipalities to try to keep those costs down. We have a real issue in West Michigan with workforce affordability and trying to make sure that we can provide quality opportunities for people to live in or rent.

We battle this notion all the time. And back when I was selling real estate full time, we had to battle one of our local cities who had a great idea which was to do set asides for affordable housing. The one lone housing development though in the city had a minimum lot size requirement of 100 by 150, 15,000 square feet. And houses, they wanted then to have affordable housing put on those. And it just wasn't functional.

They also were making a proposal to retroactively go back into rental units and put in hard sprinkling, not even smoke detectors, sprinkling systems. And they had no concept about what this would actually cost or what it would do for rents because it all looked great on paper. But there is a detachment from reality.

And Mr. Lawson and Mr. Carter, I am curious, I don't want to just curse the darkness, I do want to light a candle on this, and I am curious if you can provide maybe some of those candles. What have some of those local businesses or, I'm sorry, local governmental agencies done to help affordability rather than hinder affordability?

Mr. CARTER. The one thing I would point out is that one of the issues that we have talked a lot about is the cost those things add. But I think what we sometimes miss is the additional risk that the process makes for the project.

The fact that particularly in California, which is my current home State; I grew up in your home State—

Mr. HUIZENGA. I won't make you point to your hand where you are from.

Mr. CARTER. Okay. I was over here.

Mr. HUIZENGA. Okay. I am over here so—

Mr. CARTER. But the problem in many municipalities across the country particularly in—and California is one of them where we are based, is that it may take 3 to 10 years before you know the final zoning approval of what you are getting and whether you are going to have 200 units or 300 units, and you may in that time period spend $3 million to $10 million of risk without knowing the economics of the projects.

Mr. HUIZENGA. Just so we can figure out the math, does that make it cheaper if you can put 300 units in versus 200?

Mr. CARTER. Yes, 300.

Mr. HUIZENGA. Okay. Let us just make sure, because we sometimes lose sight of that in Washington. And I think that goes back to what my friend from California, Mr. Sherman, was talking about. The phrase he used was, "The rent is too damn high." Well, sometimes the costs are too damn high, right?

And how do you make sure that it is not just materials. It is the process. It is the development cost. It is that time value of money for anyone in the private sector that is going to do this, and we cannot just simply point this over the government at all times.

Mr. Lawson, I want to give you an opportunity to answer as well, to light the candle.

Mr. LAWSON. Yes, sir. I appreciate that. You clearly feel our pain, so thank you for that. I think one of the discussions we had earlier about creating incentives for local municipalities to streamline the process or to make their zoning less exclusionary.

One of the things in the industry that or one of the things many municipalities have taken up is inclusionary zoning and mandatory inclusionary zoning. I oppose that. I think it should be voluntary. There should be an economic quid pro quo between that, so that it doesn't simply become a tax on the market rate units in a community.

And that would be density bonuses, fee waivers; all sorts of incentives can be created.

Mr. HUIZENGA. And this notion of mixed use is something that seems to be lost as well. And having the ability to have different incomes all in the same area, maybe not with the same lot size like my city back in the district was trying to do.

But if you change and vary the lot size, you could actually make it more affordable to have those families have that opportunity.

So with that, I yield back.

Mr. LAWSON. Absolutely.

Chairwoman WATERS. The gentleman from Missouri, Mr. Cleaver, the Chair of our Subcommittee on National Security, International Development, and Monetary Policy, is recognized for 5 minutes.

Mr. CLEAVER. Thank you, Madam Chairwoman.

I was in my home State of Texas this past weekend. So, I got up yesterday morning, drove 26 miles from the Renaissance downtown Dallas to the place where I was born, Waxahachie, a little community of about 12,000.

I drove from my maternal grandmother's home, gone, to my grandma Gardner's home, gone. I went to my paternal grandfather's home, gone, Aunt Edna's house, gone, little town, all you see is just vacant land.

And I couldn't help but wonder the same thing I wondered about Capitol Hill. I moved here 14 years ago to Capitol Hill. And it was a rather homogenous neighborhood and now you have to hunt down Black people. If you walk from my apartment right across the street from the Supreme Court to the Eastern Market— I was trying to count Black people as I walked a couple of weeks ago, and I saw two, on a nice sunny day.

And I think about the new stadium, human beings used to live down there, I wonder where all those people, wonder where all those people are in little Waxahachie, I wonder where all those people are who used to live on Capitol Hill, all gone. I was in San Francisco this past August, staying with some friends, my wife and I. And we were driving around and our host said the Black/Brown population in San Francisco has dropped now to about 2 percent because they can't afford to live there.

So, I asked Barbara Lee, "Are they moving over to Oakland?" She said, "Well, they were, but the price of homes now in Oakland are rising to the level they were in San Francisco, so they have left Oakland." And I asked, "Well, did they go to Richmond?" She said, "We don't know where they are going."

Have you guys wondered where they are going? You are in the housing business, can you tell me where they are going? Anybody?

Ms. TODMAN. Congressman, I think that that is the value of this conversation today. If you look at the public housing portfolio across the country, it is important to make sure that it is preserved for years to come, otherwise the people who live there—brown, black or otherwise—will also be gone because those units have not been preserved.

But it also speaks to the importance of balancing market forces with the intervention of government to make smart choices for the community. And when we do that, we can see that there are certain tactics that are put in play to preserve, not just the small businesses that were there during the difficult times and who should thrive during the robust times, but also for families who live in unsubsidized affordable housing, what we call Naturally Occurring Affordable Housing to be able to stay in communities as well.

I am a strong believer in what market forces can do, but I also believe it takes leadership inside of the public policy space to make sure that what you are describing doesn't continue to be an issue throughout the country.

Mr. CLEAVER. Yes. It is a major issue. Let me get this out to make sure I get it said. And that is it is not just the urban areas. I don't think people realize because it is a little more convenient to believe it is an urban problem, but it is worse in the rural areas.

I have been working on a housing project in a little town called Marshall, Missouri, now for 3 years. It is very difficult, the builder said they can't build the housing, this is the Midwest, for under $125,000. So, we are virtually at a standstill.

But the new problem that just cropped up that you may or may be aware of is the tariffs. The tariffs that were imposed on countries like China are hurting in housing because the price of everything is rising. They closed down a nail factory in my State. So, anything from nails to granite countertops, the price is rising. And we had a dramatic drop in new housing starts last March. Affordable housing just stopped because the cost is rising so high.

Anyway, take it from there, Mr. Lawson.

Mr. LAWSON. That is the eternal challenge for us as practitioners in every aspect of affordable housing, home building, anything, we are constantly, constantly assessing our costs and fighting against that, trying to find new resources, hence I think the discussion today. If we could find a reasonable way to lower—

Mr. CLEAVER. It is a national emergency.

Chairwoman WATERS. The gentleman from Wisconsin, Mr. Duffy, is recognized for 5 minutes.

Mr. DUFFY. Thank you, Madam Chairwoman.

I think what is unique about this hearing is that we agree we have a problem, a problem exists with affordable housing in America. And now the question becomes, how do we find the right solutions to address that problem, and I don't know that I would agree that a blank check approach is the only approach we could have to making sure housing works for our families and our communities.

And I would agree with Mr. Cleaver that there are different problems in different parts of the country and in our cities and in rural America, I think we have different and unique problems that face those kinds of communities and all should be addressed.

But I want to go to maybe Mr. Carter. You said you do some work in Southern California?

Mr. CARTER. Yes, sir.

Mr. DUFFY. Could you lay out for us some of the challenges that you face with zoning and regulation as you try to do projects in Southern California?

Mr. CARTER. Well, I think the first one is density, how big will it be because that obviously drives the economics of the project, is density. And I think the second is—

Mr. DUFFY. When you say density, when you are trying to get approvals, is that a problem, the density of your project?

Mr. CARTER. Yes, whether it is 200 units or 150 units, obviously, the more density, we could make it cheaper per unit. And then the push back is well, you are going to add more people and there is more mitigation that you have to do with roads and things like that. So, it is a back and forth process.

Mr. DUFFY. But finding that sweet spot of getting the right density to get the right price for the most people is an important consideration.

Mr. CARTER. Yes, sir.

Mr. DUFFY. And maybe just stick on that point before you give me the layout of some other things for us, obviously, we have a crisis in Southern California, and specifically in Los Angeles, that the Chair has talked about. There is a homelessness problem in L.A. that we have to address and I have heard her on that point. And she is a great advocate for the homeless.

But if we could make housing more affordable, that could potentially reduce the number of people who can't afford homes and are on the streets. And so, do those leaders in L.A. partner with you and clear the way and cut the red tape to allow you to do more of your projects to drive down the cost of housing and serve more people?

Mr. CARTER. Many try and a lot of what we are able to succeed at in many places like Los Angeles and around the country are preservation of older properties that have, potentially are falling out of the housing supply because they need renovation. And so, we generally—

Mr. DUFFY. Is this the dense supply or is this like single family?

Mr. CARTER. No. This would be an existing apartment community that might have some challenges and is rundown that we acquire and renovate. And I think the gentleman who—the point about displacement, one of the things that we try to do in our investments is to retain 75 to 80 percent of the existing residents when we do an acquisition and a rehab, because we have found—the other thing that we found that the model of mixed income communities really work.

And that is one of the things we have to figure out how to do where we are not segregating low-income people all in one place.

Mr. DUFFY. So maybe beyond the land cost and maybe the labor cost is that no more expensive to build in L.A. compared to other parts of the country that you work in because of rules and regulations or they are pretty good on rules and regulations that is only in L.A.?

Mr. CARTER. No. I would say the cost. We have two properties that we are working at right now. It is similar spec. One is $500,000 a unit to build. We are looking at it in the State of Michigan and it is $250,000.

Mr. DUFFY. So, half the price.

Mr. CARTER. Yes.

Mr. DUFFY. And I guess that is my point. And if those costs come to bear on the zoning and regulatory side in the local communities, and those same local communities are having problems with homelessness and affordable housing, don't we start to say, Hey, Congress, you guys might have to spend more money. But shouldn't we also be putting pressure on local communities to say streamline this stuff so we can help you fix your problem.

Mr. CARTER. Absolutely.

Mr. DUFFY. Right?

Ms. YENTEL. Congressman Duffy, can I respond to that as well?

Mr. DUFFY. Sure.

Ms. YENTEL. So, absolutely, I agree that we have to look at zoning and land use regulations that are driving up the cost of any type of housing or even prohibiting any kind of multifamily housing from being built which is raising costs for everyone. That is a central piece of the puzzle to solving the housing crisis.

Even were we to do so when we do so, I think we already heard our colleagues from the home builders, we have heard economists and others agree that those homeless households that you referenced in L.A. will not find housing that is affordable to them. So, while we have to do what we can to eliminate restrictive zoning, lower costs for everybody, that affordability will not trickle down to the lowest-income households. For them, government subsidy, government intervention is essential.

Mr. DUFFY. But making sure we can have affordable houses, affordable housing for more people—

Ms. YENTEL. It is all part of the spectrum, absolutely.

Mr. DUFFY. Make sure we have less people who are on the streets. And so, I agree with you. But my point is this has to be a holistic approach.

And I was going to get to Ms. Todman because in her testimony she cited a study that actually references back to the cost of regulation in these projects. And, again, I am about, what are the dollars, what are the regulations, how do we look at this in the 21st Century with new data, new information and a new vision?

I yield back.

Chairwoman WATERS. The gentleman from Florida, Mr. Lawson, is recognized for 5 minutes.

Mr. LAWSON OF FLORIDA. Thank you, Madam Chairwoman, and I thank all of the witnesses. Welcome to the committee. I have never heard my name called so much in committee. I have been tempted to ask a lot of questions when they called on Mr. Lawson. Thank you.

My question is in terms of public housing and I might be a little off, and maybe Mr. Lawson, or anyone can help me, with the new millennium group that live in housing area or place, is it possible in this legislation that we have to create a portion of the rent going into what I would consider as housing IRAs so that you can move individuals from public housing into homeownership? And maybe I might be a little bit off on that, but Mr. Lawson, Mr. Carter, anyone can come in. I want to know whether that is possible.

Mr. LAWSON. I don't have specific information on that but I know that those programs do exist where a portion of the rent is set aside for down payment assistance and other things. Perhaps Ms. Todman and Ms. Yentel could speak to that.

Ms. TODMAN. What Mr. Lawson is referring to, one particular tool that housing authorities use is the Family Self-Sufficiency (FSS) Program which allows households to increase their income as they get a job or a better job, and the net new rent that would occur because of their increased income is placed into an escrow account by the housing authority, or in some cases these days private affordable housing providers.

And as that escrow grows, FSS participants will be able to use it as a down payment towards a home or other family goals. So, that tool does exist and it is a very powerful tool. It is not spoken of a lot, but Family Self-Sufficiency is probably one of the best resources to helping families move up and out of public housing and the voucher program, that exist today.

Mr. LAWSON OF FLORIDA. Would anyone else like to answer? Mr. Carter?

Mr. CARTER. One of the things that we do with some of our banking partners is we do financial literacy programs in many apartment communities. And one of the things that we have learned and particularly in affordable housing communities is that if we noticed for instance people are paying with a cashier's check or cash, that means they are doing check-cashing.

And if you could just get them into the banking system, the standard banking system, you have given them a 5 to 10 percent raise, because they are not paying those check-cashing fees. And so, the other thing that I wish, my wish for renters is more rental stability such that people who have paid their rent get that reflected into their credit score so they can eventually buy a house.

Right now, from what I see, that rental credit history doesn't seem to move the needle as much in the credit scoring as other things so—

Mr. LAWSON OF FLORIDA. Ms. Yentel?

Ms. YENTEL. Yes. Thank you.

So, the Family Self-Sufficiency Program is very important and it does exactly what you are suggesting. And I think looking for ways to assist low-income residents who are able to reach homeownership, we should. But we should also recognize that the vast majority of residents in the public housing program that you mentioned specifically, the vast majority of them are seniors, they are people with disabilities, or they are people in the labor force who are working very low wage jobs and the kind of jobs where it is difficult to cobble together enough hours in a week or in a month to make ends meet.

This will be an issue for the foreseeable future. So, as was raised earlier, it is not just a housing issue; it is a wage issue. The Department of Labor projects jobs to have the greatest growth and 7 out of 10 of the jobs that are projected to have the greatest growth over the next 10 years pay less than what it costs to rent a one-bedroom apartment.

So, the problem is not just that people aren't working hard enough, it is that jobs don't pay enough to cover the cost of rising rents.

Mr. LAWSON OF FLORIDA. Okay. I am about out of time.

But I want to thank these groups like Millennium and so forth that take these housing projects and they don't reinvest into—Ms. Todman, can you tell me, should that be a part of this legislation to make them more accountable?

Ms. TODMAN. And which groups are you referring to, sir?

Mr. LAWSON OF FLORIDA. Different groups that have the housing, Federal housing programs where they get dilapidated.

Ms. TODMAN. Right.

Mr. LAWSON OF FLORIDA. And I guess I yield back.

Chairwoman WATERS. Thank you.

The gentleman from Ohio, Mr. Stivers, is recognized for 5 minutes.

Mr. STIVERS. Thank you, Madam Chairwoman. I appreciate your holding this hearing on a very important topic. And one of the provisions in the draft legislation that I want to address that I think is a follow-up on what Mr. Duffy talked about is, and I think it merits consideration, I think it is a great idea is that in the builder supervision that would reward community development block grant recipients with additional funding if they demonstrate they are eliminating or reducing impact fees.

And while I do think impact fees can be used for positive things like making sure sewer lines and other infrastructure are in place for growing communities, I suspect that in some instances, city planners and city policymakers have used such fees to make the economics of development too high.

My first question for Mr. Carter and Mr. Lawson is, have you ever seen a circumstance where impact fees made building affordable housing too high?

Mr. Lawson, first.

Mr. LAWSON. Yes. Absolutely. And in my earlier example, I was noting a municipality in which I built both affordable housing under the low income housing tax credit and market rate luxury townhomes. The tax credit affordable apartments, that TAP and impact fees were $11,000 per unit.

Mr. STIVERS. Wow.

Mr. LAWSON. For the $325,000 town homes, the fee was $13,000 a unit.

Mr. STIVERS. So, a lot more for the affordable housing and really changes the economics.

Mr. LAWSON. A lot more. Precisely.

Mr. STIVERS. Do you have a similar view, Mr. Carter?

Mr. CARTER. Well, I would just maybe touch on a philosophy that exists broadly both locally and even to programs at HUD. They are disincentives and they are designed to catch the bad actors if you will, in the sense of if you look at things like for instance Section 8 housing which we have about half of our inventory—

Mr. STIVERS. I want to get to that in a second. Yes, keep moving.

Mr. CARTER. But clearly, one of the things is that there needs to be more incentives versus penalties. That is the—

Mr. STIVERS. Thank you. That is great. The next thing I want to cover is lawsuit abuse with regard to the Americans with Disabilities Act and the Fair Housing Act, and while I support the goals of both of those pieces of legislation, in many cases there are folks, and I have seen examples in my district, who have a sue and settle mentality that aren't interested in fixing any of the violations. They are only interested in pulling money out of the system.

Mr. Lawson and Mr. Carter, I will start with Mr. Carter this time, have you seen any examples of this frivolous legal activity that actually increases the cost of affordable housing?

Mr. CARTER. Not for us.

Mr. STIVERS. Not for you.

Mr. Lawson, have you seen any of that?

Mr. LAWSON. We have experienced personally in our market and NAHB for a long time has advocated for a safe harbor accessibility provision where we have numerous different regulations that come into play, and we are not always sure and our professional consultants, our architects can't always say you are 100 percent fine if you do A, B, and C, that is a challenge.

Mr. STIVERS. One of the things that I have pushed for is a right to cure which would ensure violations get fixed and doesn't make it about just money to these organizations. Since you have seen some of this, Mr. Lawson, do you think a right to cure would make affordable housing more affordable while still living up to the ideals of the ADA and the Fair Housing Act?

Mr. LAWSON. Yes, I would agree.

Mr. STIVERS. Thank you. One more question I have for Mr. Carter, and you started to talk about it is, can you talk about what could be done to make building managers more likely to participate in HUD's Section 8 program?

Mr. CARTER. It is to create consistent standards across public housing authorities, that they have to do inspections within a certain period of time and the like, but developing a set of standards that are consistent because HUD deals with, again, over I think it is 3,000 or 4,000 different public housing authorities, consistency there. And, again, we deal with 45, and one and 45 are very, very different.

Mr. STIVERS. So, Mr. Carter, what you are saying is owners of apartments and building managers want consistency and certainty across jurisdictions so that they can understand what they are dealing with and that would make Section 8 housing more attractive as an alternative or a way to get involved in affordable housing.

Mr. CARTER. Yes, sir.

Mr. STIVERS. Thank you.

Thank you, Madam Chairwoman, for holding this hearing. I yield back the balance of my time.

Chairwoman WATERS. You are so welcome.

The gentleman from Guam, Mr. San Nicolas, is recognized for 5 minutes.

Mr. SAN NICOLAS. Thank you, Madam Chairwoman.

I have been listening very intently and I am finding a lot of interesting connotations in the conversation. It sounds like in the interest of trying to move forward this legislation to provide funding for affordable housing, there is a resistance or a hesitation to do so if we don't pursue deregulation perhaps first.

And I think that deregulating makes sense to a certain extent. But I don't think we should be abdicating our responsibilities to address the affordable housing crisis in this country. We shouldn't be abdicating that responsibility to localities which we do not have any jurisdiction over. I think that maybe perhaps in our role, we can influence our respective districts to address whatever is holding back the development opportunities in the regulatory framework. But I think that we need to stay focused on what our duties are here now with respect to this particular piece of legislation.

And in the context of that, I wanted to talk about how—or looking at, I think, two different arenas here, really, and we are comparing them in ways that I don't think are very accurate, at least not an accurate reflection of what we are dealing with in those two particular areas.

Mr. Carter, your interest in the whole affordable housing arena is focused on private capital and utilizing private capital to address the public housing issues in this country.

Mr. CARTER. Yes, sir.

Mr. SAN NICOLAS. And in the earlier conversation, it was talked about how your target range is about $7,000 to $20,000 as a cost basis when it comes to rehabbing existing structures for affordable housing purposes?

Mr. CARTER. Yes, sir.

Mr. SAN NICOLAS. And it was also mentioned in that conversation that the $55,000 per unit cost that is going to be addressed in this particular legislation is—well, it was intonated that it was higher than what your costs are, but the whole purpose of your operation is to pursue those kind of projects that have the least amount of cost and the highest rate of return. Is that correct?

Mr. CARTER. I would say that those that have the appropriate risk adjusted return, yes, sir.

Mr. SAN NICOLAS. Okay.

Now, Ms. Todman, you represent the agencies?

Ms. TODMAN. That is correct.

Mr. SAN NICOLAS. And this $55,000 per unit public housing cost is to address the agency concern.

Ms. Yentel, you spoke about how the agency rehabilitation issues have been underfunded for decades.

Ms. YENTEL. Yes.

Mr. SAN NICOLAS. And it has been cut off by as much as 50 percent over the last almost 20 years.

Ms. YENTEL. That is right.

Mr. SAN NICOLAS. Now, I think that we can get the private sector and the public sector to agree that when you defer maintenance for that long, the cost to rehab those units increases exponentially over time, is that correct?

Ms. YENTEL. Yes, that is correct.

Mr. SAN NICOLAS. And we have a consensus across the board on that.

Mr. CARTER. Yes, sir.

Mr. SAN NICOLAS. Okay. So the under-investment overall these decades is I would argue a large cost component of why we are talking about $55,000 per unit today as opposed to $7,000 or $20,000 per unit for a private firm is able to go out and almost pick and choose what projects to undertake. Is that correct?

Ms. TODMAN. Yes.

Ms. YENTEL. That is correct, sir.

Mr. SAN NICOLAS. Do we have consensus on that across the board?

Mr. LAWSON. I would simply say that we may be comparing apples and oranges in that case, because I think the level of capital needs and the level of the deferral of maintenance in some of the public housing portfolio would be much greater than that, which Mr. Carter, than a property that Mr. Carter might be buying.

Mr. SAN NICOLAS. I am glad we are able to get that on the record because I don't want us to—I think we are all on the same page here. I think that we definitely need to support and deregulate to allow for the private investment to continue to help meet those demands, so we don't have to invest public money in the areas where the private investment isn't going to flow toward.

I think that we will have to figure out how to find that happy ying and yang here. I do want to talk about something that was mentioned by my colleague, Mr. Sherman, about how rents are too damn high and wages are too damn low.

And I think that, of course, that formula factors into the equation when it comes down to affordable housing. Ms. Yentel, you mentioned a single person with a disability relying on an annual income of just over $10,000 from supplemental security income as an example of inadequate income to meet housing needs, is that correct?

Ms. YENTEL. Well, it's an example of an extremely low-income household and they are the households who have the most severe shortages for homes affordable and available to them, yes.

Mr. SAN NICOLAS. Right. And so, I wanted to just kind of reference that when I make this point here and that is that, well, I know that your purposes are to advocate for housing in particular, I think that because we just have so much crossover here in the need for housing and the need for incomes that can afford that housing, I would ask that your organizations begin exploring the availability of their testimony to actually speak towards income issues in this community.

And one of them in particular, and I will end with this, is that Guam is a territory does not get SSI. We don't even have that $10,000. And I just wanted to close by asking across the board, your organizations are national organizations, does that include territorial data?

Ms. TODMAN. Yes.

Ms. YENTEL. Where the data is available, yes.

Mr. SAN NICOLAS. Great.

Thank you very much, Madam Chairwoman. I yield back.

Chairwoman WATERS. Thank you.

The gentleman from Colorado, Mr. Tipton, is recognized for 5 minutes.

Mr. TIPTON. Thank you, Madam Chairwoman. And I appreciate you holding the hearing here today. I would like to be able to describe a little bit of what we have in my district. We have some resort communities that have developed building for a specific clientele.

But here is part of the challenge. The plans were not put in place for the lower-income folks who are going to be the workers who are going to be in those communities. We also have a second challenge; they come from rural Colorado.

We have the statistical information to be able to support that we have a lower per capita income. However, some of the regulations that are applied at the State level and even at the local level as well are increasing some of those housing cost that are making those homes less affordable.

And I want to be very clear, a lot of the regulations happen to be very good, to be able to have a fire alarm within your home, carbon monoxide detectors, good ideas to be able to have those but, Mr. Carter, you had mentioned earlier in your testimony that you are dealing with six public housing agencies.

You just mentioned 45 different regulators just a little bit ago that you are having to be able to deal with. When we are looking at the cost of an actual home or for a place for people to be able to rent, how much is added on to the cost of those units from the cost of regulations that the people have to be able to pay?

Mr. CARTER. We think 30 percent or more.

Mr. TIPTON. And arguably some of those regulations are obviously good to be able for the safety and soundness of the community.

Mr. CARTER. Yes, sir.

Mr. TIPTON. Is there a better way when you were just describing just when Mr. Stivers was questioning you that having to deal with a variety of different folks in terms of the regulations, does that increase your cost as well, with effectively one or two or maybe even three stop shopping, would that be a better way to be able to do business?

Mr. CARTER. Well, what I mentioned is we operate in affordable housing communities with over 45 different public housing agencies, so I have a team. I have a staff of 10 people who just deal with our compliance issues.

Mr. TIPTON. Ten people.

Mr. CARTER. Yes.

Mr. TIPTON. And so that does drive up the cost for people with lower incomes to be able to get that type of housing.

Mr. CARTER. Yes, sir.

Mr. TIPTON. It seems to me, we are dealing with this from the Federal end. If you were to make just an educated guess in terms of some of the regulatory cost, is the heavier burden from the Federal side or from the State and local sides?

Mr. CARTER. State and local.

Mr. TIPTON. State and local side.

Mr. CARTER. Yes.

Mr. TIPTON. So, what is happening at the State and local level in terms of creating affordable housing for people in those resort communities, in areas with lower incomes is actually creating a hardship on people?

Mr. CARTER. Yes, sir.

Mr. TIPTON. Great. So, do you have some ideas on how to best address that?

Mr. CARTER. Well, certainly, the area that you mentioned specifically, in your district, I mean, we own a property in Naples, Florida, which is a perfect example of a very high-end community with a lot of resorts and then a lot of workforce that has to support that.

And I do think the low income housing tax credit is still the best way to produce housing units for that segment in those communities.

Mr. TIPTON. Great.

Mr. Lawson, do you have any comments on that?

Mr. LAWSON. Yes. Obviously, there are a lot of things that affect the cost but risk is very much one of those, and the State and local regulatory processes are a big piece of that. It can sometimes take us, as Mr. Carter said, years to get something done.

Your investment is at risk that entire time. And to create more certainty, to streamline that process sounds like a great idea. I think we have discussed here, and other people have discussed the idea of creating an incentive in order to streamline that process. The incentive, the Federal incentive could perhaps affect the State and local behavior.

Mr. TIPTON. Great. I appreciate your comments on this because it is a multi-level issue that we have to be able to deal with impacting people at home. And we do need to be cautious and aware as well.

There is no free literally in the world, be it a Federal incentive there are going to be costs associated with that that ultimately those same people that we are talking about who are having a hard time maybe being able to make that mortgage or that rent payment are going through taxes to be able to have to assume some of that cost.

Simplification, good streamlining which is what we do in the private sector is something that I think is something that we ought to be aspiring to. And again, Madam Chairwoman, I appreciate you holding the hearing today.

Chairwoman WATERS. Thank you.

Mr. TIPTON. I yield back.

Chairwoman WATERS. The gentlewoman from Michigan, Ms. Tlaib is recognized for 5 minutes.

Ms. TLAIB. Thank you, Madam Chairwoman.

The average price for homes in Detroit is $30,000, an affordable rate for home buyers in my district. Despite this, since the early 2000s, we saw more of a drop in Black homeownership than any other State in the country.

Traditional banks are carrying out the very practices outlawed by the Fair Housing Act, a 50-year-old law that banned racial discrimination lending and refusing to offer mortgages for low-income borrowers for less than $50,000.

Currently, the City has over 43,000 vacant homes. So Detroit, unlike similar cities, has both an increase in demand and its supply of housing stock. Ms. Yentel, can you talk about the challenges buyers typically face when attempting to get smaller mortgage loans?

Ms. YENTEL. Thank you for the question. And you are right to be concerned. We share your concern about minority homeownership. And in fact, today, as you mentioned, the numbers in Detroit and beyond nationally, Black homeownership levels are lower today than they were before the Fair Housing Act was enacted.

So clearly we have a long way to go and more to do to ensure that access to credit becomes possible for historically underserved communities. It is a place where Fannie Mae and Freddie Mac play an important role and it is one of the reasons why we have to ensure as we address comprehensive housing finance reform that that access to credit for historically underserved communities remains available.

Ms. TLAIB. Now, I am so glad you mentioned Fannie Mae and Freddie Mac in that and their duty to serve efforts to preserve affordable housing. How can we get them to facilitate financing of smaller mortgages? What can we do as public servants and Congress Members to push for that initiative?

Ms. YENTEL. Well, I think duty to serve is an important initiative and it is something that Fannie and Freddie—it is relatively new. It is something that Fannie and Freddie are starting and doing well.

It is requiring more thought and more initiative, more innovation in serving historically underserved communities, including renters in rural communities, including manufactured housing residents.

So, I think, one, ensuring that we retain duty to serve and continue to allow for this innovation to happen and measure what is working and what isn't, and then work to take to scale the lessons that we learn from that.

Ms. TLAIB. Thank you.

Ms. Todman, what can be done under the Community Reinvestment Act to ensure that banks are being properly examined by the Office of the Comptroller of the Currency to receive the CRA credit?

Ms. TODMAN. I think that oversight is important. And I believe we should trust, but verify. And so, if there are situations—

Ms. TLAIB. We do.

Ms. TODMAN. —where our financial institutions have made commitments, we need to make sure, at the local level, that those commitments are kept to those areas that, but for investment from financial institutions, certain community amenities and housing improvement would not occur.

And I look at programs like New Market Tax Credits as a program available to financial institutions to infuse equity and improve what is happening inside the community.

Ms. TLAIB. Because residents in Detroit in the 13th Congressional District are locked out of the traditional mortgage market, they are often forced to borrow from nonbanking lending institutions, even high rates of land contracts are just out of control.

Our other largest source of mortgage loans right now, which are obviously outside of the purview of the Community Reinvestment Act regulations, and this is something that I am increasingly becoming more passionate about these kind of loopholes and the need to update the CRA.

Ms. Yentel, can you talk a bit about the risks that consumers are faced with right now when borrowing from nonbanking institutions?

Ms. YENTEL. So, I have to be honest and say that is outside of my area of expertise.

Mr. CARTER. But I would—first of all, I grew up in your district, so I know it very well.

Ms. TLAIB. Then we are brother and sister now.

Mr. CARTER. Yes. I went to Cass Tech High School. But we actually are involved in Detroit now in developing new apartments there. And one of the things that we believe that part of—it is a great objective to buy a home but quality rentals are needed there as well.

And we find that there is a lack of quality rentals and we are in the process of developing a new property on the north end of Detroit. And we think it is a great market—

Ms. TLAIB. Mr. Carter, what do you mean by quality rentals? Because I have articles, they say rising rents, falling wages, Detroit's poor face housing crisis. For some, the price is just—

Mr. CARTER. We will have affordable apartments where we are building.

Ms. TLAIB. But the definition of "affordable," I'm sorry gentlemen, maybe we can talk offline, but the definition of affordable is the issue. And we need to really have a serious conversation about that.

Chairwoman WATERS. The gentleman from Kentucky, Mr. Barr, is recognized for 5 minutes.

Mr. BARR. Thank you, Madam Chairwoman, for holding this important hearing.

Mr. Carter, included with your testimony were some articles that tell your story and the creative solutions that you have offered and developed to improve the lives of tenants and communities, and we are very impressed with your story and your commitment to serving these communities.

I wanted to ask about how we might attract more private capital in the development of apartments in multi-family housing as opposed to just always resorting to more taxpayer expenditures.

There are a lot of things that we can do, I think, to change the way we do business in this country to attract private capital. And one government program that actually, I think, does a pretty good job of this is the RAD program.

Ms. Todman, I think you have may have testified about this earlier. And I will get to that in a minute. But before we get to that, could you expand a little bit on your testimony about the changes to the—the retooling of the Community Reinvestment Act that could really help in this regard?

Mr. CARTER. Well, I would say the first one would be that the old assessment districts aren't necessarily aligned to where the need is. And so, there are certain banks that say, well, I can't invest there because my assessment district is here.

And the reality of it is it would be great if it is affordable housing that serves an underserved market wherever it is, that the banks get credit for.

Mr. BARR. Let me ask also about your testimony about opportunity zones. There are a lot of investors who are very interested in this, but I think there is still some uncertainty with the Treasury rollout.

As you look at this—the tax bill opportunity zones—tell me how opportunity zones are going to attract private capital? And are the rules that you are seeing so far, are they positioned to attract that private capital?

Mr. CARTER. I would say, yes. I think there was a big uncertainty that came out of it last week. One of the issues though is the challenge in developing new things and the timeframes are very, very—the opportunity zone legislation requires that we get things processed quickly where there is certainty as to what fees and things are there, which doesn't exist today. And that is where we have to get the—

Mr. BARR. So maybe a message to the local governments is look at those opportunity zones. Look at your local regulations and match those up.

Mr. CARTER. Yes, sir.

Mr. BARR. Now, that could really help super charge the opportunity zones.

Mr. CARTER. Yes, sir.

Mr. BARR. In my district, we have an outstanding community leader, PG Peebles, who is the CEO of the Lexington Urban League. And a city council member, also James Brown who is—they both come to me and talk to me about the need for more affordable housing and yet at the same time the problem of gentrification.

Can you talk a little bit about how we can do some of these things, to invite more private capital, to revitalize opportunity zones in other neighborhoods without the problem of displacement?

Mr. CARTER. Well, I think that is the key. We have to be inclusive. We have to keep people who are there. And we have to—to me, we have to add additional levels of income to a community to make it viable.

I believe that a diversity of incomes will make a stronger community. We own mixed income properties. I can tell you where we range from 50 percent, 40 percent of AMI to market-rate units. And those are some of our most successful communities.

Mr. BARR. Great.

And Ms. Todman, back to you on RAD. The Lexington Housing Authority is moving towards jurisdiction. They are doing some great things, Austin Sims leads that agency. I don't know if you know Austin.

Ms. TODMAN. Yes.

Mr. BARR. But they are taking advantage of RAD.

Ms. TODMAN. Yes.

Mr. BARR. And RAD is a great opportunity to take all the dilapidated public housing stock, invite private investment which is great for those tenants, and convert those into Project-Based Section 8.

To me, this sounds like a great way to both rehab our existing public housing stock while at the same time save some taxpayer dollars and invite more private capital in.

Ms. TODMAN. Sure. So Mr. Sims is a colleague of mine and he is able to marry two programs, RAD and Moving to Work, to improve his units. But that is sometimes unique to agencies like in Lexington that have all of those tools in the tool kit. For a fair amount of our members, RAD, as powerful a tool as it is and as successful as it can be, it is not always a tool for all agencies. And so, I think an infusion of capital funds will help those agencies and for those who can use RAD and capitalize on it, it is a tool for the future.

Mr. BARR. Thank you. I yield back.

Chairwoman WATERS. Thank you.

The gentlewoman from Massachusetts, Ms. Pressley, is recognized for 5 minutes.

Ms. PRESSLEY. First, I want to say thank you, Chairwoman Waters, for renewing this committee's sense of urgency around this issue and framing the conversation to reflect the real gravity of it.

In 2013, a National Infrastructure Protection Plan was released, outlining 16 critical infrastructure sectors. Of the 16, not one was housing or shelter. Just to be clear for the purposes of the record, would the 4 of you indicate by a show of hands, do you believe it is vital that we recognize our nation's housing supply as critical infrastructure if we are serious about addressing our current housing crisis?

[Show of hands.]

Ms. PRESSLEY. Let the record reflect—enthusiastic showing,thank you. In cities across the country, including those in my district, the Massachusetts Seventh, the housing supply lacks both in quantity and quality.

In Cambridge, one housing property alone vacated 57 housing units as a result of hazardous mold. Now, we know that multi-family units and apartments house a large proportion of low-income families, and while some are in good shape, many of these buildings have deteriorated and do require significant renovations.

Unfortunately, these situations are plagued by split incentives where owners see repairs more as sunken cost than as investments in their properties.

Mr. Carter, would you say that because of split incentive, many building owners choose not to make these needed repairs and many residents contend with poor and subpar housing conditions?

Mr. CARTER. I would say that as an industry, I believe that, and I know as a company, we focus on making those investments because the most important thing to us is the safety and wellness of our residents. So, we do make those investments and we cure those situations.

Ms. PRESSLEY. Would anyone else like to comment before I move on?

Mr. Lawson?

Mr. LAWSON. I would just say that within the industry—within any industry there are good participants and there are bad participants. And we all know that there is a small percentage, I think, of landlords who do not keep up their building.

As an industry, we welcome our local codes officials putting pressure. We think they should be even more aggressive.

Ms. PRESSLEY. Thank you. Reclaiming my time.

Okay. Very good. When I served on the city council, I chaired the Public Health Committee and we spoke often about the weathering effect that we learned about through the Massachusetts community health center where they surveyed low-income residents in public housing about how bad did they think their children's asthma rates were.

And they put it in like the 3 to 5 range but when they were tested, they were actually at life-threatening risk, 8 to 10. And so, we know that housing is a fundamental and critical determinant of public health.

And repeated studies have shown this link between housing stability and health outcomes. The current state of much of our housing supply poses a literal hazard to families and particularly children.

One 2-year study by the Boston Housing Authority at the Mary Ellen McCormick neighborhood found a 47 percent reduction rate in asthma symptoms, asthma attacks, ER visits, and school absences, when tenants moved out of older apartments into newly renovated units.

This reality is no clearer than the story of a constituent of mine, Angelo, who first came to the Boston Medical Center Grow Clinic at 8-months-old but was the size of a 4-month old.

He and his mom were living in an overcrowded apartment, sleeping in the living room with a leaking ceiling, and infestations of mice and cockroaches among other things. He developed allergies and was so weak he could not raise his head up.

Since then, as a result of moving into quality public housing, he has now started to thrive, to gain weight, and to hit the necessary developmental milestones to enroll in day care.

Ms. Yentel, do you agree that housing is a critical determinant of health?

Ms. YENTEL. Absolutely. And if I could add, I would say I think you raised such an important point not only for the individual costs to children and to families, but to the Federal Government through inaction.

So, we are talking a lot about what are the benefits of a major investment and infusion of funds to repair public housing and build more? Inaction is expensive. We are paying for housing instability and homelessness one way or another.

And as you raise, we are paying for it through increased health costs. When people are affordably housed, their visits to primary care physicians increase by 22 percent. Their visits to the emergency room decrease by 18 percent. Medicaid costs fall by 12 percent.

There was a study in your backyard from Children's Health Watch where a group of pediatricians in Boston found that over the next 10 years, we will spend $111 billion in avoidable health care costs because of housing instability and housing insecurity.

Ms. PRESSLEY. Yes. So one more time, just for the record, in your opinion do you believe the current level of funding poses a risk to the public health of our children and families?

Ms. YENTEL. I do. Yes.

Ms. PRESSLEY. Thank you. And I yield back.

Chairwoman WATERS. Thank you.

The gentleman from Texas, Mr. Williams is recognized for 5 minutes.

Mr. WILLIAMS. Thank you, Madam Chairwoman. The chairwoman's draft legislation cost for $92.1 billion for housing infrastructure. This is double the entire budget of the Department of Housing and Urban Development.

I think the private sector which I am part of will have an important role in solving an affordable housing issue, and I am not convinced throwing this much money at a problem as the government sometimes does will solve the underlying issues that led us here in the first place.

So, Mr. Lawson, my first question to you is, what do you view as the most effective way for the public and private sectors to work together to help solve the affordable housing problem that we have here in this country?

Mr. LAWSON. Again, while it's not under the jurisdiction of this committee, I think the low income housing tax credit program has been the most successful affordable housing program that the country has ever created.

That works in conjunction, however, with a lot of funding, a lot of programs that aren't under the jurisdiction of this committee. I think the reason that the tax credit program works so well is it marries the private sector discipline with the public sector resource of the tax credits.

And everyone has a responsibility. A responsibility of the resident on one hand is to pay the rent and pay it on time. The responsibility of the owner is to rent to income-qualified people. If that doesn't happen then there are very serious penalties at play.

Mr. WILLIAMS. Thank you.

Mr. Carter?

Mr. CARTER. Yes, sir.

Mr. WILLIAMS. Your LLC manages over 8,000 units in 12 States, as we have heard today. This is a very impressive accomplishment. You were able to find a free market solution to help solve the affordable housing crisis.

And I think this is the beauty of capitalism. So before I continue to my question, Mr. Carter, are you a capitalist or are you a socialist?

Mr. CARTER. Capitalist.

Mr. WILLIAMS. Thank you very much. I appreciate that. Now, the economy is strong. I think we would all agree with that. There are more jobs than people looking and the economy grew at an impressive rate, we found out, at 3.2 percent in the first quarter of 2019, which surpassed almost every economist's projection.

Mr. Carter, on page six of your testimony you talked about the intersection of jobs, affordable housing, and infrastructure. So can you please elaborate on what role jobs play in this discussion?

Mr. CARTER. Well, certainly, as we create jobs, for instance, Amazon, people look at that and they see Jeff Bezos, but the reality of it is that it creates lots of jobs for people who make $40,000 to $50,000 a year in warehouses.

And those are the people that we house. So that is, as we even create technology jobs and things like that, there is a very, very close relationship, jobs and the need for people to live close by. In one of the areas that university towns, we own in Boulder and also Poughkeepsie, New York, huge demand for people that work at the universities.

Mr. WILLIAMS. Mr. Lawson, you mentioned in your testimony that the shortage of housing units in low- and moderate-income families reflects the market reality, not a lack of interest in serving the population.

We have heard testimony today that local policies have a significant effect on construction prices of affordable housing units. So my question would be from a Federal level, how can we better get the numbers to reflect the market reality if we are hindered by overregulation at the local level?

Mr. LAWSON. I think we can create incentives for local municipalities to streamline their regulations and to adopt less restrictive land use policies. A lot of zoning ordinances in suburban areas which is a lot of our—a lot of areas in which I work, are by definition exclusionary. They are excluding the least expensive home and apartment types.

Mr. WILLIAMS. Okay. My last question to you, Mr. Carter, is to piggyback off my previous question to Mr. Lawson. Your company has found a way to make the numbers work and is operating in 12 different States, as we have said.

Studies have shown that local regulations can account for over 30 percent of the cost of development in renovation of the apartment complex. And so, what are some of the unique regulatory challenges that you are facing in development in Southern California versus the one right outside my district in Austin, Texas?

Mr. CARTER. I would say that the environmental regulations are a lot tougher in California than Texas. That is one. I would say that the ability to get density is greater, is easier in Texas than California.

Mr. WILLIAMS. And we have no personal income tax either in Texas.

Mr. CARTER. Yes, sir.

Mr. WILLIAMS. I yield back the rest of my time.

Chairwoman WATERS. Thank you very much.

The gentleman from Utah, Mr. McAdams, is recognized for 5 minutes.

Mr. MCADAMS. Thank you, Madam Chairwoman, and thank you, all, for being here today. As a former mayor myself, I worked on housing issues on a daily basis. And we certainly struggled with many of the same concerns that you all have raised in your testimonies, that is how to incentivize affordable housing development, and how to plan for development projects in a way that made sense for communities, our schools, and our existing infrastructure and how to do it financially.

And planning for our existing infrastructure, integrating housing with our infrastructure, that is the point I want to focus on in my questions. So, Mr. Carter, in your written testimony, you note that infrastructure and housing are linked in significant ways.

You go on to note that contemporaneous consideration of housing demands and infrastructure needs maximizes community benefit and promotes efficiencies in transportation, land use, and public works.

In short, what I believe you are referring to is the need for smart growth and thoughtful city planning, planning that links jobs with housing and with infrastructure investments and not to look at these as separate activities endeavors of their own right but collectively how we are connecting people to the opportunities that they desire to access.

Housing is linked to jobs, is linked to a transportation infrastructure. So, Mr. Carter, can you elaborate on one point that you are making in your testimony, how important it is to link affordable housing development with infrastructure investments and what benefits this can bring to those cities and to those residents?

Mr. CARTER. Well, I think that the—thank you very much for that question. That in the creation of jobs, I believe that in most industries there is a diversity of different workers at different salary levels which really reflect the need for housing at a variety of different levels.

So, we have seen it with technology. People assume that every tech worker is a millionaire, but the fact is there are a lot who work in doing things at where they make—support staff, so you need housing for those people as well.

Mr. MCADAMS. And, Mr. Lawson, as a developer yourself, how does access to transportation influence where you seek to put a project? And how often are the cities you interact with trying to link jobs and housing with their infrastructure investments?

Mr. LAWSON. I think that is a great question, because I think we can do a much better job of aligning our transportation and our housing. And that has been a struggle, I can say in my hometown. That has been a big struggle. It has been a political struggle to the extent that we can, again, create positive incentives for municipalities to align those to, I think the outcome would be better.

Mr. MCADAMS. So this hearing today is about housing as infrastructure. And I think that is right that housing is a critical piece of infrastructure but I also think it is important to note that a bus line or a transit line or a road is part of our housing infrastructure.

That housing in a silo, people don't just live in the place of their residence. They have to get to work. And so, connecting—looking at housing not in a silo but as it relates to their transportation choices, I think is important.

So, I guess, I am curious if anyone on the panel has any recommendations that we could pursue legislatively to incentivize smarter housing growth strategies that ensure affordable housing development has access to our transportation resources, such as rail or bus.

Mr. LAWSON. I think again, what we have talked about and I think one of the other Congress Members here said that we give away a lot of money for transportation to localities but we don't require anything in return, perhaps this is an opportunity.

Mr. MCADAMS. Okay. I think that gets at some of my concerns which is as I have seen affordable housing projects come forward, trying to make this pencil even with—tech and other incentives is difficult.

And so oftentimes, we find affordable housing on the land that is less desirable, which means then once the housing is built the residents have to have a car, have to have gas, have to walk long distances to work and other unintended consequence of the location and yet land next to our transit is more expensive but maybe better capable of sustaining these developments and a better quality of life for those residents and the development.

Ms. TODMAN. I would say I had the great joy of being in St. George, Utah, for Utah's NAHRO chapter meeting and I was impressed by the level of growth there, particularly from a jobs perspective, but I have lots of questions about the low-income individuals who are in those jobs and how they were able to move around.

Every city has their consolidated plan that they are to submit to HUD to receive funds. I do believe that there is an intersect between housing and transportation. Maybe that is someplace we can look to to have localities coordinate.

Mr. MCADAMS. Thank you. I am interested in that. And I yield back.

Chairwoman WATERS. Thank you.

The gentleman from Georgia, Mr. Loudermilk, is recognized for 5 minutes.

Mr. LOUDERMILK. Thank you, Madam Chairwoman. I appreciate the panel and your testimony here today. Housing is something that we are dealing with even in my district back in Georgia.

I met with one of our manufacturers recently and asked them what is their number one issue? I anticipated trade or the economy, which was growing, that their answer would be the labor workforce.

Then, they told me their number one concern is the lack of starter single-family homes, because what they have seen is there are numbers of people who could qualify for a mortgage today, who couldn't 2 years ago, because of how strong the economy is and how they are building the workforce.

But there are no starter single-family homes for them to purchase in our area, which is just surprising to me. But even with that, with more people qualifying for homes, there are still a lot of Americans for whom homeownership is out of reach for various reasons.

I have worked with several of these nonprofits. One, Homes for Vets, actually will build homes for disabled veterans and they give them a zero interest mortgage going forward. They custom build these homes. I have had the honor doing several ribbon cuttings, but also in my home State of Georgia, one of the largest nonprofits is Habitat for Humanity that actually will build homes for those for whom homeownership is just out of reach.

And as we are looking at some things we can do, there is one thing that we could do this pretty simple to build it. It actually passed unanimously out of this committee last Congress and passed out of the House, unfortunately, it didn't go anywhere in the Senate, that would provide some regulatory relief for these nonprofits.

The TRID rule is making it more difficult for the nonprofits because you have a 2,000-page regulation that organizations like these have to comply with, which in many cases requires a full-time compliance person and these are nonprofits and some of them have just said it is not worth doing.

It is too onerous for us to comply with such heavy-handed regulations that were actually designed for large bank mortgage companies. And so, the BUILD Act is what we introduced that would basically allow these nonprofits to go back to the pre-TRID reporting forms.

Just those that make the zero percent mortgage loans, to allow them to give them a little flexibility to go out and do more of what they do, building these affordable homes or zero interest mortgages for these low-income families.

So, my question is really around that as, Ms. Yentel, can you discuss the important role that these nonprofits play in the nation's affordable housing arena?

Ms. YENTEL. I have to look more closely at the BUILD Act to get back to you specifically on that. Nonprofits are an important part of our country's affordable housing solution, whether they are helping to provide low downpayment, no downpayment homes for those who can afford them or whether they are developing and operating rental housing for the lowest-income people.

Mr. LOUDERMILK. Yes. And that is really my question, what important role do they play?

Ms. YENTEL. Yes.

Mr. LOUDERMILK. And as I have seen, it is a very important role. It is another piece of the larger puzzle.

Ms. Todman, should we be careful not to overregulate these companies that, or these nonprofits that are there to provide a service, especially with regulations that are geared toward the huge, big, mega mortgage loan companies.

Ms. TODMAN. I would speak to regulation in general and say that when regulations exceed the tipping point of addressing health and safety and have folks become paper shufflers in terms of what their duties are, there is a monetized impact to that. I do think we have to look very carefully at how regulations impact housing affordability and whether you are able to have new growth and preservation inside an overregulated environment.

Mr. LOUDERMILK. Thank you. I appreciate that.

Mr. Lawson, how do private sector home builders partner with these nonprofits?

Mr. LAWSON. We partner with a number of nonprofits, mostly on the multi-family side within the context of the low income housing tax credit program that our State creates incentives for. But I think we do—what we should do is align incentives.

We should not look at—we should look at the goal first and not look at the taxability, yea or nay, of a particular practitioner in the market. We should say what is the best housing goal and let us create incentives for it.

Mr. LOUDERMILK. Thank you. I appreciate that. And hopefully, we can move this bill forward again in this Congress. I yield back.

Chairwoman WATERS. Thank you.

The gentlewoman from Texas, Ms. Garcia, is recognized for 5 minutes.

Ms. GARCIA OF TEXAS. Thank you, Madam Chairwoman, and first, I know that you all have already talked about this, but I just wanted to get it clearly on the record, because having grown up poor in South Texas in a four-room only kitchen, no bathroom, no living room house, I have seen what the need for housing was then. And I have been a social worker and have visited many homes like mine where there are 10 people and 10 children a room, so you can imagine the crowded situation, I have visited and they have same or similar conditions.

When I block walk some of my own neighborhoods now that still exists now. So, housing shortage is not a new problem. It has been around for a long time. And as much as we can say that private industry will take care of it and that the markets will take care of it, well, guess what? They really haven't. I think it has helped but it really hasn't.

So, I just want to ask each one of you, just yes or no, do you all agree that without some government involvement, the market fails to develop any new low-income housing?

Ms. YENTEL. Yes.

Ms. TODMAN. Agreed.

Mr. LAWSON. I absolutely agree.

Mr. CARTER. Agreed.

Ms. GARCIA OF TEXAS. Agreed. Now, I was also a lawyer in the housing section and my favorite T-shirt actually said, "Housing for poor people, not profits." And Mr. Carter, you probably would disagree with that and, Mr. Lawson, you probably would too because you are here to make a profit.

But you still utilize some of the incentives that we have, right?

Mr. CARTER. Yes, we do.

Ms. GARCIA OF TEXAS. Right. So which one do you think works best? And if you could just be brief because I still have one more question?

Mr. CARTER. I would say Section 8—Project Based Section 8 and the low-income housing tax credit.

Mr. LAWSON. I would say the tax credit because as I said before it marries a public subsidy with the private sector discipline. I think that public private venture is what creates the sustainability long-term.

Ms. GARCIA OF TEXAS. Okay.

And, Ms. Yentel, you talked about how there are different strategies and different levels of poverty, and the one that we really need different strategies for each, what can we really do like a lot that I see in my district and it is still like the house that I grew up in that is four rooms with—it may not be 10 children for the one family. I was from a very large family, but in fact it may be 10 children and 4 adults and it is 2 or 3 different families living in them. And what can we do to really reach the very poorest of the poor of America?

Ms. YENTEL. Yes. Thank you for the question. The only segment of the population for which there is an absolute shortage of homes that are affordable and available to them are those extremely low-income households.

The National Housing Trust Fund Program is our country's newest and most deeply targeted housing program. It was created and designed precisely to meet this need. And at its current funding level, 100 percent of the dollars go to build or preserve apartments that are affordable to extremely low-income households. The first year's allocation of $174 million has resulted in about 1,900 units that have been developed that are housing some of the country's most vulnerable people.

A lot of the people that you are talking about are people who would otherwise be living in severely overcrowded situations or would be sleeping in shelters. The only challenge with that program is that it is woefully underfunded compared to the overwhelming need. So, an infrastructure spending package is an ideal opportunity to increase investments in this important program.

Ms. GARCIA OF TEXAS. Right. I feel like the mayor back here who—housing is just the first start, but you also have to include the transportation and maybe wraparound services so that they can be able to maintain the home and address all their needs.

So have you seen any strategies that really work by combining the housing assistance with the wraparound services needed so that someone can really get the lift up?

Ms. YENTEL. Sure. Housing First is a good example of that and it is the model that we use today to help end homelessness in communities across the country. And while some people experiencing homelessness or some extremely low-income renters may have challenges in their lives that go beyond housing affordability, until people are affordably housed, they can't effectively address those other issues.

So the idea is first get people housed in homes that are decent, safe, affordable, accessible, and then the wraparound services can help them address the other issues in their lives, to maintain those homes, to address accessibility issues, mental health issues and beyond. But the home and living in a safe, stable, affordable environment is essential to success in those other areas.

Ms. GARCIA OF TEXAS. Thank you. Thank you, Madam Chairwoman. I yield back my time.

Chairwoman WATERS. Thank you. The gentleman from Ohio, Mr. Davidson, is recognized for 5 minutes.

Mr. DAVIDSON. Thank you, Madam Chairwoman. And I thank our witnesses today for your expertise in the matters before us.

You know, affordable housing is important in every district. It is certainly important in Ohio's 8th District. We have pockets of great wealth, but we also have, right nearby, pockets where people are struggling to find affordable housing.

Our rural communities are, even though the net cost is fairly low by national standards, struggling to find affordable housing. And I just want to understand how, when we look at the ability to afford housing, normally you would think income growth is key. And when you look at the economy that we have been under for the past couple of years and certainly the economy the numbers look great, 3.2 percent GDP growth in the first quarter, 3 percent personal disposable income.

So that is the cash that you have to pay your bills with in the household, that has gone up by 3 percent. And it is not always where the GDP is going up and wages are going up. We have seen the GDP go up and wages remain stagnant, so thankfully, both trends are positive.

And I am finding it odd that as I look at our spending on Federal housing subsidies, we are spending more money on poverty assistance. We have a safety net and America values the safety net, but you would think that as the economy heats up, as people are more fully employed, more fully employed than they have ever been in many of our communities and certainly by demographics, record low levels of unemployment, yet we spend more money on Federal housing subsidies, we are spending more money with 3.8 percent unemployment than we were spending at 10 percent unemployment right after the Great Recession.

Ms. Yentel, I will start with you, why would that be?

Ms. YENTEL. The economy is working well for some of the mostly higher-income households. while lower-income earners, for them, the economy hasn't gotten much better, because they don't have stocks in the stock market—

Mr. DAVIDSON. No, wages are up. The wages are up for everybody.

Ms. YENTEL. For the lowest-income people, wages have predominantly been stagnant and are just now getting—

Mr. DAVIDSON. That is true for the century. It is not true for the past couple of years.

Ms. YENTEL. It is true and if we look at the jobs—

Mr. DAVIDSON. It is not a debate. The time is mine. Ms. Todman?

Ms. TODMAN. Yes. I would say that you have a lot of middle-class families impacted by the Great Recession who are still catching up in terms of their housing needs. They are only just beginning to see the impact of the economic improvements that you suggest.

Another issue is just supply. We, as a country, are running into a supply issue. It relates to the actual number of housing being produced, which is why it is important to keep one important supply, the public housing stock, and it is also important for us to invest in other affordable housing units, and it is important for us to encourage market-rate housing. Supply is key to the cost of housing.

Mr. DAVIDSON. Thank you for that. And the reality is, while wages are going up, in the low-income portion, without some of the programs that we talked about, there are challenges in meeting the needs, because the market doesn't produce all of the affordable housing without some of the incentives we have.

And as I go to Mr. Lawson and Mr. Carter, maybe you can highlight each briefly some of the hurdles that you run into, maybe I'll begin with Mr. Carter. We have all these programs. We spend nearly $900 billion a year on poverty assistance, over 92 programs, some of them are duplicative. They all come with all kinds of rules and barriers. What are a couple that you find that would help you meet the needs better if you could get some reform?

Mr. CARTER. Thank you for the question. One is just the cost of developing. And I just want to point out to your last question, we were involved in a project in downtown San Francisco in 2001. It was $200,000 a unit to build at Mission Bay. Today, it would cost $650,000 a unit to build.

Mr. DAVIDSON. Wow. Thank you. Mr. Lawson.

Mr. LAWSON. Supply and demand, and the increase in construction costs and the the scarcity of supply has driven housing costs higher than the increases in incomes.

Mr. DAVIDSON. Thank you. And as you look at the way some of the programs work, here is a piece. Right. So even one of my Democratic colleagues was speaking about one of his two programs that he had been involved with as a former mayor and one worked really efficiently, they would spend all the money. The other one didn't, there was money trapped there because there were a lot of rules.

As we look at that, the proposals will spend $92 billion more with no reforms. I know most people won't spend an extra 200 bucks without expecting a better bang for the buck. And it is just shameful that we are not talking more seriously about reform.

My time has expired, and I yield back. Thank you.

Chairwoman WATERS. The gentlewoman from New York, Ms. Ocasio-Cortez, is recognized for 5 minutes.

Ms. OCASIO-CORTEZ. Thank you, Madam Chairwoman. Ms. Todman, would you agree that if you try to make repairs to your home after 20 years of neglect, it would be much more expensive to repair at the end of that 20 years than if you just invested in routine maintenance?

Ms. TODMAN. Agreed. And my testimony speaks to that. There is a chart that shows some of the longitudinal impact of non-investment in the past several decades.

Ms. OCASIO-CORTEZ. And, Ms. Yentel, would you say that public housing is part of our national infrastructure?

Ms. YENTEL. Yes, absolutely.

Ms. OCASIO-CORTEZ. Well, for more than 2 decades, the Federal Government neglected to make the New York City Housing Authority's (NYCHA's)developments—they failed to invest in them for more than 400,000 New Yorkers. And so now we have about 2 decades of complete neglect, and that bill for 2 decades of neglect is a lot bigger than if we had just invested in that routine maintenance. Would you agree with that, Ms. Yentel, Ms. Todman?

Ms. YENTEL. Agreed. I agree.

Ms. TODMAN. Yes, agreed.

Ms. OCASIO-CORTEZ. So people just throw out the term $32 billion. That is what is owed to New York City's Housing Authority alone, $32 billion. But what does that $32 billion in neglect look like?

Well, we took up some stories from our district and it seems this is what that $32 billion in neglect looks like. In one apartment in the Bronx, sewage flows into an apartment when it rains and water leaks through the roof. Children like Mikayla Bonaparte have blood lead levels hitting 8 times the amount that prompts Health Deaprtment action; 800 children under the age of 6 living in NYCHA housing tested positive for high levels of lead between 2012 and 2016 during the Federal disinvestment period.

While already in decay, Hurricane Sandy devastated many housing developments whose boilers were located in the basement and they already struggled, and continue to struggle with that replacement. During the winter, residents have to open their gas ovens to heat their apartments because the disinvestment has prevented and tied the Housing Authority from being able replace these heating systems.

People are going without hot water and heat during the wintertime. In some cases, residents estimate heat in their apartments began to falter over 10 years ago and they have to make do with space heaters in the middle of the winter, and other residents have to put up with the stench of pervasive mold that triggers their asthma. Madam Chairwoman, I seek unanimous consent to submit to the record multiple articles from the New York Times highlighting each and every one of these cases.

Chairwoman WATERS. Without objection, it is so ordered.

Ms. OCASIO-CORTEZ. Thank you so much.

Ms. Yentel, do you believe that all of these horrific cases were necessary? Or were they unnecessary in terms of the government's disinvestment?

Ms. YENTEL. Well, certainly, those kind of health consequences are unnecessary and shameful and a direct result of disinvestment over decades into the repairs necessary to upkeep those homes.

Ms. OCASIO-CORTEZ. So it was completely unnecessary for these kids to get lead in their blood. It was completely unnecessary for these families to live through winter without heat. It was completely unnecessary for these families and children to breathe in mold. And we did it anyway, because we decided that their lives and that their housing was not worthy of Federal investment. Would you say that is correct?

Ms. YENTEL. I would. I would say that the funding that is required to keep those homes at a decent, safe level have been underfunded for decades, funding for public housing repairs to repair all of those units that you are talking about were cut in half over the years 2000 to 2016 and continue to be terribly underfunded compared to the need.

Ms. OCASIO-CORTEZ. So this is what we did—

Ms. YENTEL. It is fixable. It is all fixable.

Ms. OCASIO-CORTEZ. And as we thank you. And as we said, that this and as people made excuses that these investments were unaffordable and that there was no money, we exploded our military budget. We expanded fossil fuel subsidies to oil and gas companies, and we continue to provide tax cuts to corporations and the exceedingly wealthy that didn't need them. Yet at the same time, folks have the audacity to say that there is no money for public housing and that it is that we can't afford for children to have clean blood and clean water.

This is morally wrong and it is also fiscally unnecessary. I have one last question. As we transition to the necessity of green and clean energy, are there health benefits that are possible here? Can we create jobs for folks in housing in that are living in Housing Authority as we make that transition?

Ms. TODMAN. Certainly. The Section 3 program is one that as we look at the Capital Fund as the preservation tool, many housing authorities will use Section 3 as a way to employ residents but also there is—

Chairwoman WATERS. Time has expired.

Ms. OCASIO-CORTEZ. Thank you. Thank you very much.

Chairwoman WATERS. The gentleman from North Carolina, Mr. Budd, is recognized for 5 minutes.

Mr. BUDD. Thank you, Madam Chairwoman, for yielding and, again, for hosting this hearing. I want to start by highlighting the role that the insurance industry plays as an investor and supporter of American infrastructure projects. The U.S. Chamber of Commerce Center for Capital Markets Competitiveness has an excellent report summarizing this.

And, Madam Chairwoman, I ask unanimous to submit this into the record.

Chairwoman WATERS. Without objection, it is so ordered.

Mr. BUDD. Thank you. And to highlight some of the findings from the Chamber's report, of the roughly $6 trillion in investment assets held by insurers, about a trillion are held in municipal securities that are issued to fund our roads, our schools, and our hospitals, which, of course, is great infrastructure for housing.

Insurers also directly invest in infrastructure projects, having provided $26 billion or 6 percent of all private infrastructure investments in 2016 alone. Insurers also initiated 11 percent of all commercial real estate loans in 2017 valued around $54 billion. These figures show that the insurance industry plays an important and key role as an investor in American infrastructure.

So, Mr. Carter, I would like to ask you a question. I want to talk about regulatory burden with you just for a moment. According to the research from Hoyt Advisory Services commissioned by the National Apartment Association and the National Multifamily Housing Council, America needs to build more than 4.6 million new apartment homes at a variety of price points by the year 2030. So how can the Federal Government partner with the private sector to better house our nation as well as help this nation's infrastructure needs?

Mr. CARTER. Well, I thank you very much for your question. I think the first thing is to make it easier for private investors to invest. You mentioned insurance companies, and about 10 percent of our investors are insurance companies. And the other important thing that people forget about the insurance industry is it plays a huge role in insuring what we do.

And so in terms of our properties and so over the last few years, we have had challenges with hurricanes and windstorms, which has also increased our operating expenses and that has impacted affordability, but I would say making it easier for them to invest in some of our apartment communities by eliminating some of the regulatory challenges and some of the uncertainty.

Mr. BUDD. So eliminating regulatory challenges, any permitting challenges that are slowing down projects, make it harder to invest?

Mr. CARTER. Yes. Again—and those roadblocks, they impact the certainty of the viability of the project, when it will come on. Again, in many places around the country, it is 3 to 10 years before you get final approval to get a project done.

Mr. BUDD. Understood. Another question. Mr. Carter, a recent study by the National Multifamily Housing Council and the National Association of Home Builders found that on average, 32 percent of multi-family development costs are attributable to the costs associated with complying with local, State, and Federal regulation like we just talked about. Can you please provide us with some examples of programs, practices, and regulations at the Federal level that add to the cost of housing? This really follows on the last one since you mentioned regulation being an obstacle, if you can give us some examples.

Mr. CARTER. Well, one is parking. I think today, and I mentioned earlier as society has evolved, I think the parking requirements are based on where it used to be one car per bedroom and people are driving less and there is other car-sharing and things like that. And certainly more density, that is the big thing. You know, being able to build more units.

Mr. BUDD. Mr. Lawson, with the same question, do you have some more obstacles that you would like to talk about?

Mr. LAWSON. Yes. Well, one example several years ago, we bought a parcel of property, and we were going to build 96. Well, we ended up only being able to build 96 apartment units on it, affordable apartment units, because we found out there are wetlands on this parcel that was miles from water or any other tributaries or anything else. The regulations have changed the indicative species for wetlands to include very common species rendered this wet area wetlands, which then required mitigation ended up costing about $150,000 and reducing what we could with the property at the end of the day.

Mr. BUDD. Understood. Environmental, parking lots, and I am sure the list could go on. I appreciate your time, and, Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you very much. The gentleman from Illinois, Mr. Garcia, is recognized for 5 minutes.

Mr. GARCIA OF ILLINOIS. Thank you, Madam Chairwoman. And I would like to thank all the panelists for their testimony and their replies to questions asked. I would like to shine the spotlight on the Chicago Metro region for a quick snapshot that I think is informative nationally. I would like to ask a question regarding the National Housing Trust Fund after sharing some data with you about affordable housing in the Chicagoland area.

Ms. Yentel, according to your organization's analysis, there are about 92,000-plus affordable and available rental homes in the Chicago area, but about 326,000 extremely low-income renter households. That is right, one of three households in Chicago, less than one in three have access to affordable housing.

DePaul University's Institute for Housing Studies found that in Chicago's Logan Square community, for example, there was a 12 percent drop in the share of available affordable housing between 2012 and 2014 and between 2015 and 2017. This enormous lack of affordable housing is driving some troubling trends.

For example, some of the outcomes that this reality has produced according to the Chicago Community Trust is that Chicago lost about 100,000 African-American residents in the past 10 years. Logan Square alone has lost over 20,000 Latino residents and nearly 10,000 African-American residents in the past 15 years alone. How can increased investment in the National Housing Trust Fund help low-income communities stay in their homes?

Ms. YENTEL. Well, the National Housing Trust Fund program was designed exactly to meet the need that you are describing very well. And the need that you are describing exists in your district. It exists in every congressional district whether they are rural, suburban, or urban. The primary cause of the affordable housing crisis we have today is the shortage of homes affordable and available to the lowest-income people.

The National Housing Trust Fund program at its current funding level, all of the funding, all of the dollars go to States in order for them to get the funds out to developers to build and preserve apartments for the lowest-income people. So in your State, there is a project that has been funded through the first year's allocation of the Housing Trust Fund that is serving homeless veterans. In other communities across the country, Housing Trust Fund homes are housing people experiencing homelessness, previously experiencing homelessness, survivors of domestic violence, people who were previously chronically homeless, and others of some of the most vulnerable people in our country.

Mr. GARCIA OF ILLINOIS. Thank you. Transit-oriented development: The Chicago City Council 5 years ago passed an ordinance encouraging transit-oriented development. I believe in improving transportation and mobility for neighborhoods. That is a major reason why just last week, I was in Logan Square to support a proposed 100-unit affordable housing development next to a transit station, the Chicago Transit Authority.

However, we know that development when done incorrectly in Chicago can lead to gentrification, displacement, and racially inequitable outcomes. Since Chicago's council passed its transit-oriented development, several developments have gone up, but only one is currently available. How do we prioritize and provide resources for equitable transit-oriented development projects that will maintain diverse communities in the full sense of the word like Logan Square?

Ms. YENTEL. Right. It is a great question. Thank you. And so transit-oriented development is a really important part of the solution, ensuring that we have density in homes that have access to transportation, good jobs, and with that often comes increased investments in the community and gentrification. And what we have to ensure is that there is not displacement as a result of that gentrification.

Affordable housing is the key to that. Affordable homes that are built and preserved in communities that are gentrifying become the anchor that allows for long-time residents, low-income residents, people of color, to remain and continue to afford their homes as costs go up around them. So it is essential to ensuring any kind of transit-oriented development project that there are affordable homes, affordable to the lowest-income people to allow those residents to remain.

Mr. GARCIA OF ILLINOIS. Thank you. Madam Chairwoman, I yield back the rest of my 3 seconds.

Chairwoman WATERS. Thank you very much. The gentleman from Tennessee, Mr. Kustoff, is recognized for 5 minutes.

Mr. KUSTOFF. Thank you, Madam Chairwoman. And I want to thank the witnesses for appearing today. I looked at the clock, and it has been almost 3 hours, and we appreciate all of your testimony today. Mr. Carter, if I could with you first, in your written testimony, you discussed the importance of the community development block grants and how that can address the shortage of affordable housing.

We had a hearing 2 or 3 weeks ago and we discussed in the hearing about withholding the CDBG funding to local communities to better incentivize and streamline the permitting process and other policies that create barriers to development projects. I know you likely support increased funding for these CDBG projects, but do you believe that withholding these community development block grant funds from communities would better incentivize affordable housing in lane use policies?

Mr. CARTER. Yes, I think that there should be incentives to create a path of efficiency to make sure that we can get things done.

Mr. KUSTOFF. Thank you very much. Ms. Yentel, as it relates to the Community Development Block Grant Act of 1974, of course, it used census data in the funding formula. It has created, I think, anomalies within the dividing programs funding between the most needy and least needy communities across the United States. What I am talking about is formula B, which you may or may not be familiar with; it allocates funding based on a share of growth lag.

It is pre-1940 housing and it is weighted at 50 times the appropriation. Some of the older suburbs benefit greatly from that pre-1940 data even though they may have relatively low needs to their community. Are you familiar with the formula process? And if so, do you have an opinion about whether the formula itself needs to be updated?

Ms. YENTEL. I am not familiar enough with that provision to speak specifically to that, but I would say generally that the CDBG formula would benefit from updating in order to assure that resources go to the communities that most need those resources.

Mr. KUSTOFF. Thank you, Ms. Yentel. Ms. Todman, are you familiar with the formula process? And if so, do you have an opinion about the way it is allocated?

Ms. TODMAN. I am not familiar with it. I would say though as it relates to older suburbs, we should be very careful, because there are a lot of lower-income neighbors who are moving out of the urban core and into suburbs and ex-urbs because that is where affordability exists. So I think we need to be careful as we consider moving the antenna to look at the historic movement of people in and out of the suburbs and the urban core.

Mr. KUSTOFF. Thank you, Ms. Todman. Mr. Lawson, are you familiar with the formula and about the pre-1940s way that it is calculated?

Mr. LAWSON. Unfortunately, no.

Mr. KUSTOFF. Okay. And you wouldn't have an opinion then?

Mr. LAWSON. No, sir.

Mr. KUSTOFF. Mr. Carter, are you familiar with it?

Mr. CARTER. No, sir.

Mr. KUSTOFF. Okay. As it relates to my community, I represent part of Memphis, Tennessee. There has been some questioning about the linkage between access to public transportation and to affordable housing. In my community, there have been some news reports lately about how some of the commutes on public transportation can take hours for the individuals to get from where they live to where they work. Ms. Yentel, do you have an opinion about what approaches this committee should consider or could consider that would better align efficiencies for housing needs and public transportation?

Ms. YENTEL. Well, I would say transit-oriented development is a good way to achieve both, and the reason why people live so far from where they work is because they are not able to find homes that are affordable to them that are closer, and so it points back to the shortage of homes for the lowest-income people and the importance of investing in constructing and preserving more homes that are affordable to them closer to where they work in all communities.

Mr. KUSTOFF. Thank you. Ms. Todman, in my remaining time, do you have any ideas about better aligning those needs?

Ms. TODMAN. I do think—having practiced at the local level as a houser, I do think that there is a robust conversation that should always be had between the planning department, housing agencies, and also the transportation department, and to the extent the Federal Government can infuse that conversation with resources, I think we all will benefit from that.

Mr. KUSTOFF. Thank you.

Chairwoman WATERS. The gentleman from Texas, Mr. Green, the Chair of our Subcommittee on Oversight and Investigations, is recognized for 5 minutes.

Mr. GREEN. Thank you, Madam Chairwoman. And I thank the witnesses for appearing as well. I am of the opinion, Madam Chairwoman, that the infrastructure starts with housing, because all roads lead to some home, some community where people dwell. Housing is the necessity for people that creates the opportunity for contractors and engineers to build infrastructure. So let us not devalue the infrastructure of a home.

And just for edification purposes, Mr. Carter, we have a bill, H.R. 123, that does exactly what you called to our attention. It is a pilot program, FHA, to allow rent, light bills, gas bills, water bills, and phone bills to be scored, so that people who probably could afford a home but for poor credit or thin credit, will be able to do so. I was very pleased that you brought this up. Would you just give an additional comment on how this can be beneficial, please?

Mr. CARTER. Well, I would like to start by saying that I do think in this country we have a bias of homeowners versus renters, and I don't believe that renters are often the given the credit both in terms of their community standing as well as how credit bureaus recognize their consistent payment of rent and utility bills, and to me that is one philosophical thing that I think that this country and certainly our organization believes that renters have, they are an important part of this nation.

Mr. GREEN. Thank you. Quickly, let me ask this of all of you. Assuming that there is waste, fraud, and abuse, and there is, as a matter of fact, we have it in the military, but we always increase the budget. We don't decide that because there is waste, fraud, and abuse that we are not going to enhance the military budget. But can this problem that we are confronting, can it be solved without money? Do we have to have money to solve the problem? Is that a necessary ingredient?

Mr. CARTER. Yes.

Ms. YENTEL. We need funding, yes.

Mr. GREEN. Let the record reflect that all agree. Moving on, here is what we are confronting. Some of my colleagues believe that the poor can do more with less, but that the wealthy need more to do more. It has been my experience that the poor can benefit from more, too. And that sometimes it is just the luck of the draw. You just weren't born in the right place, the right ZIP code as we are now prognosticating. You weren't born in the right family. You just didn't get the luck of the draw.

And but for the grace of God, a President who had a tough time, had to pull himself up by a $1 million dollar bootstrap, some of us just don't get those kinds of bootstraps and have to contend with receiving at the demise of our parents a legacy of poverty, it is just the truth. So when I hear my colleagues talk about how they want to include more people in the social safety net, they want to make sure that more people can be moved into various programs to help the homeless, but at the same time won't increase the funding.

So what you are saying is more people, less money, because you don't increase this funding, so you are expecting the people who are getting the benefits to do more with less. I find that quite intriguing and I am trying to be delicate with my verbiage. Sometimes, my diction can be less than superb. My final point is this: I think this $5 billion for the Housing Trust Fund is absolutely needed, and I thank you, Madam Chairwoman, for placing it in there. I yield back.

Chairwoman WATERS. Thank you. The gentleman from Ohio, Mr. Gonzalez, is recognized for 5 minutes.

Mr. GONZALEZ OF OHIO. Thank you, Madam Chairwoman, for holding this important hearing today.

I want to start by entering into the record this agreement dated the 31st day of January 2019 between HUD and the New York City Housing Authority and New York City.

Chairwoman WATERS. Without objection, it is so ordered.

Mr. GONZALEZ OF OHIO. Thank you.

And this is a follow-up to my colleague from New York earlier, who cited some of those New York Times articles.

I just want to read this. The complaint set forth the findings of the United States investigation alleging among other things that NYCHA had routinely failed to comply with lead-based paint safety regulations, had failed to provide decent, safe, and sanitary housing including with respect to the provision of heat and elevators and the control and treatment of mold and pests, and had repeatedly misled HUD through false statements and deceptive practices.

In the next section, NYCHA made admissions regarding, among other things, deficiencies in physical conditions with respect to lead, mold, heating, elevators, and pests. Untrue statements to HUD regarding the condition of NYCHA properties and NYCHA HUD then declared that NYCHA is in substantial default. Ms. Yentel, were you aware of this specific agreement?

Ms. YENTEL. Yes.

Mr. GONZALEZ OF OHIO. You were, okay. Would you agree then based on this that—I think it was suggested earlier that the Federal Government is solely responsible for this specific challenge.

Do you agree that NYCHA bears some responsibility given that they in fact admitted to it themselves?

Ms. YENTEL. Well, much of what you read there is them admitting to deficiencies in conditions of units, broken elevators, broken boilers, lack of heating, which is the result of decades of lack of funding for NYCHA to support and redevelop those properties.

Mr. GONZALEZ OF OHIO. So, again, whereas based on NYCHA's misconduct as detailed in the complaint, the Secretary of HUD declared that NYCHA is in substantial default, but moving on.

So switching gears, I want speak about a different type of regulation. Mr. Carter, Mr. Lawson, you spoke quite well about the importance and I think we actually agree on this, that local and State regulations can have on the development of properties, can hold you back, it can bring down supply artificially.

So I want to speak about a different type of regulation, and those are the increases in regulation that have been proposed by the Green New Deal, which I believe would mandate net zero emissions for all buildings in the country. Mr. Lawson and Mr. Carter, you both cited today 32 percent of costs to development are due to regulations in multi-family units. Mr. Lawson, in your testimony you said that when you do not build more affordable housing, it is for two reasons: one, regulatory cost; and two, lack of Federal subsidy. Speaking specifically about the regulatory cost, what do you think being forced to build at net zero emissions on all projects would do to those costs? Mr. Lawson?

Mr. LAWSON. I think it is unequivocal that the cost would go up because that technology is not in standard use today.

Mr. GONZALEZ OF OHIO. Significantly. Mr. Carter, do you feel the same way?

Mr. CARTER. In general, yes. Although I think it is important to understand that when we acquire a property, we try to make it more energy-efficient and we invest LED lighting and things like that. And one of the reasons is that it lowers our residents' monthly cost.

Mr. GONZALEZ OF OHIO. Right. And we all agree that we need to improve in that regard, I think everybody in this room, but this is something over and above that would add tremendous cost. And see in my opinion, the reason why the Green New Deal is such a bad idea and I really think it is it would be devastating in my community. I live in Northeast Ohio, Ohio's 16th District, and I'm proud to represent Northeast Ohio, is and you guys just discussed it, that the development cost would move to such an astronomical level that we wouldn't be able to build. We wouldn't be able to build affordable housing. And so the way that would hit my community not just in affordable housing but look at energy costs, we would have families making real trade-offs between heating their homes and putting food on the table. That is the cost of these regulations. We need to talk about how do we remove barriers to development, which we all know is important and everybody agrees on, not how can we add an additional layer that is unrealistic that would price low-income families completely out of the housing market. And with that, I yield back.

Chairwoman WATERS. Thank you. The gentlewoman from North Carolina, Ms. Adams, is recognized for 5 minutes.

Ms. ADAMS. Thank you, Madam Chairwoman. And thank you for holding this important hearing. And to our witnesses, thank you for your testimony today. Let me first direct this question to Mr. Lawson and Mr. Carter. In my district, in the city of Charlotte, North Carolina, the community development organizations, many of them in the private sector, are working together to tackle our local housing crisis and indeed it is a crisis for us in Charlotte. Private investment in affordable housing infrastructure is crucial, but do you agree that it is difficult for private developers to create affordable housing for the lowest-income households without the benefit of Federal housing subsidies?

Mr. LAWSON. Yes, I agree.

Mr. CARTER. I agree as well.

Ms. ADAMS. All right. Both of you, okay. Can you speak to the importance of some of the key Federal housing programs that help home builders create and reserve affordable housing?

Mr. LAWSON. Yes. The programs that help us create affordable housing are absolutely key. As I said in my testimony, affordable housing cannot be constructed without some form of subsidy.

Ms. ADAMS. Right.

Mr. LAWSON. That base subsidy is the low-income housing tax credit. HOME funds are often used in conjunction with that Project-based Section 8 and housing choice vouchers are also a component in many of our communities.

Ms. ADAMS. Do you agree?

Mr. CARTER. I agree.

Ms. ADAMS. Okay. Let me ask all of you if you believe that housing is a human right, just a yes or no.

Mr. CARTER. Yes.

Ms. ADAMS. Did everybody say yes?

Mr. LAWSON. Yes.

Ms. ADAMS. All right. We have unanimous agreement. Mr. Lawson, Ms. Todman, the Trump Administration has proposed to zero out critical HUD and USDA housing programs such as the community development block grant program. From the development perspective, why are these funds important to maintaining the current affordable housing stock and increasing the supply of affordable housing?

Ms. TODMAN. I would say for two reasons. One, HOME dollars, sometimes CDBG, are used as important gap financing tools to pay for the cost of building a unit. I always say a unit costs exactly what a unit will cost whether it is for somebody who is middle-income versus somebody who is low-income. So it takes money on the front end or the back end, by way of project-based vouchers, to actually write down that cost for low-income families.

So it is important from that regard, but it is also important in preserving the housing that we have. And CDBG is used for that. HOME is used for preservation tactics with private owners so all of those programs are key for both preserving and building new housing.

Ms. ADAMS. Would you like to add something, Mr. Carter?

Mr. LAWSON. Yes.

Ms. ADAMS. Mr. Lawson, excuse me.

Mr. LAWSON. I would simply agree that the HOME funds in particular in a lot of cases are the gap funding, the piece of funding that gets the property over the hump.

Ms. ADAMS. Okay. Thank you. Ms. Todman, you represent a coalition that includes several public housing agencies, can you describe the severe shortage of public housing and Federal rental assistance that your members see in the communities that they serve?

Ms. TODMAN. Certainly. Many of the communities I serve including, I might add, some of the smaller and rural agencies, are seeing increased demand on the resources that they have. There is evidence that for every four people who can actually qualify for affordable housing, there is only one family who actually receives it. And our members see that across the country no matter what their geographic area may be.

And that is not just in public housing, it is particularly in the voucher program, which is larger than the public housing program, and I will say probably a little bit more popular because families have the opportunity to navigate communities. The voucher program is entirely capped as well. There have not been any net new vouchers in some time. While we are grateful for the mobility demonstration, the need grows in lower- and middle-income families. Our housing agencies are trying to meet that need, but it is becoming harder every day.

Ms. ADAMS. Great. Thank you very much, Madam Chairwoman. I yield back.

Chairwoman WATERS. Thank you very much. The gentleman from Wisconsin, Mr. Steil, is recognized for 5 minutes.

Mr. STEIL. Thank you, Madam Chairwoman. And thank you for calling today's hearing to discuss what is a really critical issue. I want to focus in a little bit here as to how we lower the actual underlying cost of housing. I think as we look across the United States, we see a great diversity in the cost of housing. You look at San Francisco, the average rent is roughly $3,300; $3,200 in Los Angeles; approaching $3,000 in New York; contrast that with Chicago, where the average rent is a little bit below $1,700; or in the City of Racine in Southeast Wisconsin, around $1,400 a month. That is a pretty significant variation in housing. Mr. Carter, could you comment how cities like Chicago are keeping housing costs low compared to say San Francisco, Los Angeles, and New York?

Mr. CARTER. That is a very, very good question. I would say if you look at specifically New York, and we operate in New York and also in California, they are where you have the highest land costs, the highest entitlement costs, and you have some unique factors in California. You are dealing with seismic issues and things like that. And actually in Chicago, it tends to be flat and it is a little bit easier to build there.

The other thing I think that when you are looking at construction costs, one of the things that has gained more acceptance in a few other places are modular type factory-built components, which seems to happen a little bit more in the Midwest than the two coasts.

Mr. STEIL. Is there a reason why you are seeing more modular homes in the Midwest versus on the coast? Is that a local regulation or is that—

Mr. CARTER. I think it is a combination of two things. One, it is local regulation. Two, there are more people who produce those components that are in the Midwest, so transportation is a big part of having to ship them.

Mr. STEIL. You commented earlier that there are higher entitlement costs in certain areas that are impacting the cost of housing. Can you comment on what you mean by that?

Mr. CARTER. Well, the fact that when you look to build on a piece of land, to build an apartment in California, it is maybe $150,000 just for the land and maybe $50,000 of that would be entitlement costs. And the price in the Midwest might be $25,000 to $50,000.

Mr. STEIL. So going back now to kind of Southeast Wisconsin, less of an urban area, what policies are you looking at that would ultimately lower the cost of housing to make it more affordable for people in those regions?

Mr. CARTER. I believe the one thing is to make sure that the number one is greater density, because if we can get to greater density, it reduces the cost per unit construction for development.

Mr. STEIL. Thank you. And looking in particular at those average rents, where roughly $3,200 is the average rent, somewhere in the neighborhood in San Francisco, but you are providing rents in the neighborhood of a thousand or average rents in Los Angeles approaching $2,000, you are well below that in the neighborhood of $1,100. What are you doing in particular that is allowing you to keep those rent costs as low as you are?

Mr. CARTER. We are generally buying things that are existing properties that we buy that we buy very, very well and we try to do what we call smart renovations. We use synthetics as countertops not marble. We resurface cabinets, we don't replace them, but we try to do smart renovations to keep our costs at a point where we could rent at those levels.

Mr. STEIL. So it is market-based decisions, you are analyzing, you determine how you were able to keep your cost under control.

Mr. CARTER. Yes. And many times we buy things in communities that have been underserved by institutional capital that we make the investment and we are able to buy perhaps a little cheaper than in more desirable locations.

Mr. STEIL. And as you are looking at some of those renovations, how impactful are local codes that you need to meet in the reconstruction of those buildings, does it impact on the ultimate price on rent post-renovation?

Mr. CARTER. It varies by locality.

Mr. STEIL. Okay. If you looked in particular at some of the building regulations that you would see in the Green New Deal and the impact that that would have on your ability to provide—

Mr. CARTER. I have not specifically looked at that.

Mr. STEIL. Thank you. I appreciate your time. I yield back my time. Thank you.

Chairwoman WATERS. Thank you very much. I would like to take a moment to recognize a former Member of Congress who has been with us today, Congresswoman Laura Richardson is in the audience. Thank you for the time you have spent in our committee today.

I would like to thank our witnesses for their testimony today.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

And with that, this hearing is adjourned. Thank you.

[Whereupon, at 1:29 p.m., the hearing was adjourned.]

A P P E N D I X

April 30, 2019

NATIONAL MULTIFAMILY HOUSING COUNCIL
NATIONAL APARTMENT ASSOCIATION

TESTIMONY BY
DARYL J. CARTER
FOUNDER, CHAIRMAN AND CEO
AVANATH CAPITAL MANAGEMENT, LLC

ON BEHALF OF THE
NATIONAL MULTIFAMILY HOUSING COUNCIL
AND THE
NATIONAL APARTMENT ASSOCIATION

BEFORE THE
HOUSE COMMITTEE ON FINANCIAL SERVICES

FOR A HEARING ENTITLED
"HOUSING IN AMERICA: ASSESSING THE INFRASTRUCTURE NEEDS OF
AMERICA'S HOUSING STOCK"

April 30, 2019

Chairwoman Waters, Ranking Member McHenry and members of the Committee, thank you for this opportunity to speak on behalf of the National Multifamily Housing Council and the National Apartment Association on the infrastructure needs of the apartment sector. I appreciate your efforts to examine this multifaceted problem and your recognition of the challenges facing the owners and developers of apartment housing today.

My name is Daryl Carter, and I am the Founder, Chairman and CEO of Avanath Capital management based in Irvine, CA and in California's 45th Congressional District, represented by Congresswoman Katie Porter. I am also a past Chairman of the National Multifamily Housing Council. Avanath is an investment firm that acquires, owns, renovates and operates affordable, workforce and value-oriented apartment communities across the U.S. Founded in 2008, we partner with institutional investors – both domestically and internationally – to deliver quality housing in major metropolitan and suburban markets. We have $1.7 billion in assets under management comprising 79 multifamily properties in 12 states. Over 34,000 residents call these communities home and approximately 50 percent of them receive Section 8 housing assistance.

For more than 25 years, the National Multifamily Housing Council (NMHC) and the National Apartment Association (NAA) have partnered to provide a single voice for America's apartment industry. Our combined memberships are engaged in all aspects of the apartment industry, including ownership, development, management and finance. NMHC represents the principal officers of the apartment industry's largest and most prominent firms. As a federation of more than 160 state and local affiliates, NAA encompasses over 73,000 members representing nearly 9 million apartment homes globally.

Avanath's Approach to Socially Responsible Multifamily Investment

Avanath is uniquely positioned in the multifamily industry as a firm that focuses on affordable and workforce housing in low-income areas with more than half of our properties being located in communities of color. We strategically invest in markets where renters have high cost burdens. Since our founding, we have served communities with the highest demand for affordable multifamily apartments and the greatest constraints to new supply.

Families with incomes of $30,000 to $80,000 represent the largest segment of the rental housing market. We regard the ability to serve this market as a social, cultural and financial opportunity, so we invest not only in brick and mortar, but in on-site services, amenities and activities that add value to properties and bring our residents' desired lifestyles within reach. Some of our onsite efforts include after school programs for young people, financial literacy seminars, and wellness activities for seniors.

Avanath believes that the affordable housing sector provides excellent and sustainable risk-adjusted returns with high barriers to entry and strong downside protection. We operate in many markets that are underserved by institutional capital. Nevertheless, Avanath consistently delivers apartment homes to America's most expensive housing markets at costs considerably below market rate rents. In San Francisco, median one-bedroom rents topped $3,240, yet Avanath's average rent in this market is $1,093. In Los Angeles, Avanath's rents average $1,135 compared to median rents of $2,106.

We have a long history of successful, affordable multifamily development in some of the nation's most difficult and marginalized housing markets. However, our industry faces serious obstacles that I articulate throughout my testimony. We look forward to working with this Committee to break down barriers to apartment development and rehabilitation and finding solutions to the nation's affordability challenges.

Apartments and Today's Housing Needs

A healthy housing market includes a diversity of housing options both rental and for-sale, multifamily and single-family. More broadly, there is a well-established relationship between a community's well-being and economic strength and the availability of suitable and affordable housing. Apartments have an important role in meeting these housing needs nationwide and play a fundamental part in ensuring housing affordability.

The Apartment Industry – Historic National Demand

The apartment industry is a robust and diverse sector that serves 39 million people - providing homes and lifestyle options that are right for them. We help build and sustain vibrant communities, create millions of jobs and provide a range of housing options. Moreover, our nation's housing dynamics have undergone a fundamental shift as changing demographics, economic factors and lifestyle preferences steer Americans towards rental housing.

Beginning in the mid-2000s, the nation experienced the greatest renter wave in its history, as the number of households who rent rose by more than 7 million.[1] Fueled by this historic demand for apartment homes, recent NMHC and NAA research finds that we need to build 4.6 million new apartments by 2030 to meet the nation's housing needs.[2]

Driving this demand is a wide variety of households that can afford home ownership, but prefer the flexibility and convenience of renting.[3] Households making $60,336 or more (the national median household income) now make up 29.5 percent of all apartment renter households and account for over half (56.3 percent) of apartment growth over the past decade.[4] Further, immigration (over one in four (25.1%) apartment householders were born outside of the United States), Baby Boomer and other empty nester trends (over half (59.2 percent) of the net increase in renter households from 2007 to 2017 came from householders 55 years or older) and other demographic changes are powering demand for apartments.[5]

To meet this demand, we will need to build an average of 328,000 new apartments every year. Yet we have only hit that mark twice since 1989.[6] This supply-demand imbalance seriously jeopardizes housing affordability, limits housing choice and undermines broader economic well-being.

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[1] U.S. Census Bureau, Various Surveys.
[2] Hoyt Advisory Services; NMHC and NAA, "U.S. Apartment Demand – A Forward Look", May 2017.
[3] NMHC and Kingsley Associates, "2017 Apartment Resident Preferences Survey".
[4] NMHC, Tabulations of 2017 American Community Survey public use microdata.
[5] NMHC, Tabulations of 2017 American Community Survey public use microdata.
[6] U.S. Census Bureau, New Residential Construction.

In addition, the need for renovations and improvements to existing apartment buildings continues to grow. Recent research found that 51 percent of the nation's 20 million-plus apartment stock was built before 1980, which translates into millions of units that could need rehabilitation or renovation by 2030.[7]

The growing demand for apartments – combined with the need to renovate thousands of apartment buildings across the country – can make a significant and positive impact on our nation's economy for years to come. Apartments and their residents contribute $1.3 trillion to the national economy annually.[8]

There is opportunity for a tremendous and sustained contribution to the national economy from the apartment industry. However, many factors influence the apartment industry's health and ability to meet the nation's growing demand for rental housing. Infrastructure is an important factor in meeting growing housing demand, and the need for housing affordability.

Housing and Infrastructure

Infrastructure and housing are linked in significant ways. The existing supply and efficacy of housing is directly dependent on the condition of related transportation and other infrastructure assets. For example, access to suitable transportation options, safe and reliable water and utility services and broadband and telecommunications are all vital to the livability and, importantly, to the affordability of housing.

Likewise, successful new apartment development depends on additional funding for infrastructure, modernization and strategic planning for sustained investment. We support a cooperative approach to housing development and infrastructure planning and observe that contemporaneous consideration of housing demands and infrastructure needs maximizes community benefit and promotes efficiencies in transportation, land use and public works. Early alignment of these priorities can help ensure that infrastructure assets are best serving the current and future needs of communities.

However, communities nationwide struggle with aging and inadequate transportation, water, sewage and other public systems. Jurisdictions facing serious deficits in infrastructure funding are increasingly looking to pass improvement costs along to developers. While some infrastructure enhancements on or around a development site may be mutually-beneficial, jurisdictions sometimes exploit developer resources, and by extension renter household expenditures, making project approvals contingent on ever-increasing infrastructure investments. This strain on project affordability is unsustainable. Some examples faced by NMHC and NAA members include:

- In Illinois, one city required an apartment builder to finance a public street through their site increasing the total project costs by $1.2 million. Additional improvements required to an existing road beyond the builder's site cost another $63,000.

[7] Hoyt Advisory Services; NMHC and NAA, "U.S. Apartment Demand – A Forward Look", May 2017.
[8] Dr. Stephen Fuller; NMHC and NAA. "The Trillion Dollar Apartment Industry", February 2013.

- In Georgia, one city required a new development project to pay the entire cost of widening a road and upgrading the traffic signals at a cost of approximately $200,000.
- In Texas, a project was required to replace and increase the capacity of a storm line by 75 percent to address not only the project, but to address community flooding outside of the project site. This resulted in two months of additional permit time, 30 days of additional build time and $250,000 in added cost.
- In another Texas development, the developer was required to run a water line extension almost 600 linear feet to accommodate not just that project, but future growth in the area. The developer absorbed the entirety of the $370,000 cost.

As policymakers consider infrastructure initiatives, we urge the inclusion of measures to support housing including those that would:

- Ensure a long-term and stable transportation funding stream to provide state and local governments, and the private sector, with the certainty and resources they need to meet their infrastructure needs and make further infrastructure investments;
- Encourage and incentivize all levels of government to remove barriers to apartment development and streamline regulatory burdens;
- Invest in rehabilitating existing communities;
- Address the challenges of housing affordability and stimulate new affordable development through density bonuses, fast-track review and by-right development; and
- Upgrade municipal infrastructure to accommodate growth and facilitate remediation of safety and environmental hazards that burden housing and new construction.

Our Nation's Housing Affordability Challenge

Housing affordability is a significant challenge facing many Americans today. Any discussion of national infrastructure needs must also include discussion of housing demand and affordability. Thoughtful planning and recognition of the real estate sector's dependency on reliable infrastructure is a critical component to addressing today's housing challenges for those at all income levels.

The increased demand for apartments, coupled with significant supply pressures, is making it challenging for millions of Americans to find quality rental housing that is affordable at their income level. Those at the lowest end of the income spectrum are especially vulnerable to these problems—one in five renter households earns less than $15,000 annually, and for them an affordable unit is one with a monthly rent of under $400. Yet from 2003 to 2013, 11 percent of these rentals were permanently lost from the housing stock.[9] This is also the hardest segment to build for without subsidy, given the costs associated with development.

[9] Harvard Joint Center for Housing Studies, "America's Rental Housing", 2015: available at http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/americas_rental_housing_2015_web.pdf.

However, housing affordability challenges are not unique to lower income households. The total share of cost-burdened apartment households (those paying more than 30 percent of their income on housing) increased steadily from 42.4 percent in 1985 to 53.9 percent in 2017.[10] Consider that the median asking rent for an apartment constructed in 2017 was $1,550. For a renter to afford one of those units at the 30 percent of income standard, they would need to earn at least $62,000 annually.[11] More than one in four apartment households paid more than half of their income on their housing in 2017.[12]

Across all markets, the supply of multifamily rental housing at a variety of price points will play a vital role in promoting economic growth, attracting and retaining talent and encouraging household stability for all American families. And, the development, preservation and rehabilitation of apartments for *all* income levels is a key component to meeting the nation's affordability challenges.

Affordable Housing, Infrastructure and Jobs

The intersection of affordable housing, infrastructure and jobs is also worth noting. With the increasing housing affordability challenges in so many local communities, there is additional pressure on the recruitment and retention efforts of employers. For example, according to a 2017 survey of 87 employers, large and small, in Greater Boston by Northeastern University on behalf of the Massachusetts Housing Partnership, *"72% of respondents found it "Extremely or Somewhat Difficult" to recruit and/or retain talent in the past five years. In addition, over 67% claim home prices and rental costs have affected their ability to recruit qualified candidates."* The survey also found that housing costs ranked third on a list of nine potential barriers to recruitment and retention.[13]

The Costs and Challenges of Apartment Development

Our industry faces significant challenges to new apartment construction, development and renovation and must balance a wide array of concerns including project viability, rising costs and regulatory burdens at all levels of government. A recent study by NMHC and the National Association of Home Builders (NAHB) found that 32 percent of multifamily development costs are attributable to compliance with local, state and federal regulations.[14] In a quarter of cases, that number can reach as high as 42.6 percent.

Breaking down the government regulation costs showed that 95 percent of developers' projects included requirements that went beyond what the developer would ordinarily provide (such as complex architectural design, landscaping, and parking requirements). Developers saw an average of 7 percent of regulatory costs coming from building code changes over the past 10 years,

[10] NMHC Tabulations of American Housing Survey microdata.
[11] NMHC calculation based on U.S. Census Bureau, Survey of Market Absorption.
[12] NMHC tabulations of 2017 American Housing Survey microdata.
[13] Wael Altali, Jonathan Hillman, Sarah Tekleab April 2017, Northeastern University, School of Public Policy and Urban Affairs, 'Assessing Affordable Housing Availability and its Effects on Employers' Ability to Recruit and Retain Employees in Greater Boston, April 2017.
[14] NMHC and NAHB, "Regulation: Over 30 Percent of the Cost of a Multifamily Development", June 2018.

and developers were required to dedicate land or otherwise leave land unbuilt in 50 percent of their projects.

The apartment industry stands ready to meet America's demand for rental housing, but our ability to succeed depends on several important needs; including, relief from unnecessary regulatory burdens, the availability of consistent and competitively priced capital and robust and reliable infrastructure. We commend the Committee for recognizing the interconnectivity between housing and infrastructure and exploring opportunities to break down those barriers impairing development of apartments for all income levels.

Barriers to Multifamily Development

We believe that Congress has a critical role to play in ensuring that the development and rehabilitation of multifamily housing represents a key component of infrastructure legislation.

The ability of our sector to meet housing demand, address affordability needs and deliver lasting job growth depends on collaboration and partnership at all levels of government. The cost to develop apartment homes has escalated at a dramatically faster pace than rent rate increases in many markets nationwide. As the affordability of housing is already strained, development costs must be controlled in order to create needed and affordable housing throughout the United States.

A range of outdated, unnecessary and overly burdensome policies create significant barriers to the development of apartment properties. The resulting impacts increase the cost of apartment development and construction, exacerbate supply constraints and ultimately raise the necessary monthly rent of apartment homes. Easing regulatory and other policy obstacles in apartment production is a critical consideration as policymakers explore solutions to close the affordability gap in America's housing.

Importantly, some commonplace hurdles are deliberately intended to deter multifamily development and further the ideas of NIMBYISM ("Not In My Back Yard"), which explicitly oppose new apartment development in many communities. Support from policymakers, along with educational and planning tools, can help promote the acceptance of apartments and demonstrate the benefits of multifamily development.

However, even well-intentioned policies can be counter-productive to affordable apartment production and hinder multifamily development. Common impediments to multifamily projects include:

- **Zoning Laws** that restrict or otherwise unduly burden multifamily development;
- **Onerous and Extended Entitlement Requirements**. The entitlement process, including various approvals and permits, can mire projects for years. According to NAA's Barrier to Apartment Construction Index, development timelines for properties with 50 or more units including permitting, land development, non-conforming use and zoning ranged from an average of three years in Miami to over eight years in San Diego;[15]

[15] National Apartment Association, "Barriers to Apartment Construction Index," https://www.naahq.org/news-publications/barriers-apartment-construction-index.

- **Excessive Impact and Linkage Fees**;
- **Business License Taxes**;
- **Assessment and Inspection Fees**;
- **Outdated Minimum Parking Requirements**. Parking can cost $30,000 to $75,000 per space depending on location, and often fail to reflect the changing transportation needs and trends of apartment residents;[16] and
- **Lengthy Environmental Site Assessments**.

  While these requirements are primarily within the purview of local governments, federal policymakers can play a role by creating incentives for local leaders to reduce barriers and adopt policies that encourage private sector investment in housing. Examples of actions that local governments can take include:

  - defer taxes and other fees for certain apartment development,
  - make available underutilized land,
  - streamline the development and approval processes with fast-tracking programs,
  - adopt by-right zoning for multifamily development,
  - reduce parking and other land requirements,
  - establish density bonuses,
  - enact separate rehabilitation codes,
  - create an efficient public engagement process, and
  - use property tax abatements.

An excellent example of how the federal government can incentivize these actions is the $10 billion set-aside within the CDBG program proposed under the *Housing is Infrastructure Act of 2019* to encourage the elimination of impact fees and streamlining of the process for development of affordable housing. These are exactly the kinds of strategies that are needed to remove barriers to construction of affordable housing and rental housing overall.

Housing Affordability Initiatives and Community Barriers to Development

Beyond impact fees and the development process itself, there are other policy measures being pursued in some local jurisdictions that act as significant and fundamental barriers to the development of critically-needed housing. Artificial price controls on rent levels or mandated set-asides of affordable units within new developments. While well-intentioned, these policies can produce the opposite outcome.

Rent control, in any of its various forms, is a mechanism that obligates a property owner to set rental rates for all or a portion of the units on a property. These policies act as disincentives to investing and developing the diversity of housing units that a community requires. There are

[16] National Apartment Association, "Transformation of Parking," https://www.naahq.org/news-publications/transformationparking.

alternatives to rent control that take slightly different approaches but have the same detrimental effect. The most common form of these is inclusionary zoning.

Inclusionary zoning refers to municipal and county planning ordinances that require a given share of new construction to be affordable to people with low to moderate incomes without an investment from the municipality. It is normally a condition of approval of the development. Proponents of inclusionary zoning often fail to acknowledge that these policies drive up costs, and ultimately rents, for the entire project, as developers are forced to raise rents for market-rate units to make up the difference from the affordable units to make the project financially feasible.

Additional Strategies for Meeting Housing Demand and Addressing Affordability

In addition to incentives for local governments to ease the development process, this Committee can take other steps to support the goals of meeting housing demand and affordability needs.

- **Support Housing Finance Reform that Preserves the Multifamily Mortgage Liquidity Provided by the Government-Sponsored Enterprises (GSEs)** - One of the foremost priorities of federal policy makers should be getting multifamily right in any housing finance reform effort by recognizing its unique characteristics; it is the single most important factor to ensuring that the apartment industry can meet the nation's growing rental housing demand. The GSEs', Fannie Mae and Freddie Mac, multifamily businesses are an important provider of debt capital for the apartment industry. The GSEs serve all markets and all income levels and have been particularly effective at providing capital to multifamily properties that serve affordable and middle-income renters. For over a decade more than 80 percent of their business has served that class of renters. Preservation of the mortgage liquidity currently provided by the GSEs in all markets during all economic cycles is critical. NMHC/NAA urge lawmakers to recognize the unique needs of the multifamily industry. We believe the goals of a reformed housing finance system should be to:

    - Maintain an explicit federal guarantee for multifamily-backed mortgage securities available in all markets at all times;
    - Ensure that the multifamily sector is treated in a way that recognizes the inherent differences of the multifamily business; and
    - Retain the successful components of the existing multifamily programs in whatever succeeds them.

- **Increase Funding for and Enhance Performance of the Section 8 Program. Increase Support for other Crucial HUD Programs** - Tenant-Based Section 8 and Project Based Rental Assistance allow low-income families to rent market rate housing, taking advantage of the broad offering of privately owned and operated properties in a given market. In the case of the Housing Choice Voucher Program, there are ways these programs can be enhanced to draw more participation from the private sector and create a better experience for voucher holders.

  Additionally, funding for the HOME and CDBG programs should be increased in recognition of their important role in the development of new affordable housing. Both programs allow developers to address financing shortfalls often associated with affordable housing properties and stimulate meaningful development and preservation activity.

- **Modifying the Community Reinvestment Act (CRA)** - The three main banking regulators – Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, and Federal Reserve – who control the regulations around CRA have begun the process to modernize the existing rules. The regulators have the opportunity to promote lending and investment activities of their member banks in low- and middle-income neighborhoods where infrastructure upgrades are often needed. The CRA could be modified to include greater incentives for banks to provide loans for multifamily apartments that include workforce and affordable housing development.

  CRA guidelines currently allow banks to obtain Community Development (CD) credit for multifamily units serving occupants with incomes of up to 80 percent of area median income. While this level captures a significant portion of workforce households, the rules themselves make it difficult to obtain the CD credit due to a requirement to report incomes, information that is not captured.

  Investment activity by banks often takes the form of the purchase of tax credits from a LIHTC project. Due to an outdated determination of assessment areas, banks do not efficiently distribute their investments across a broad geographic footprint. The challenge with the current CRA assessment structure is that there may be a misalignment between assessment areas and areas underserved by institutional capital, where capital could be deployed more effectively. There is an opportunity to retool CRA to provide incentives to promote investment into those areas of need where infrastructure projects overlay with low- and middle-income neighborhoods.

Finally, we encourage Congress to address the following tax proposals that all have a significant influence on addressing housing affordability.

- **Expand and Enhance the Low-Income Housing Tax Credit:** The Low-Income Housing Tax Credit (LIHTC) is a public/private partnership that leverages federal dollars with private investment to produce affordable rental housing. Since its inception in 1986, the LIHTC program has financed over 3 million apartments and served 7 million households. Given that there are currently just 45 affordable units for every 100 very low-income apartment households, lawmakers should strengthen the program by: making permanent the increased credit authority enacted in March 2018, further augmenting credit authority by 50 percent and establishing a minimum 4 percent tax credit rate.

- **Enact the Middle-Income Housing Tax Credit to Support Workforce Housing:** Housing affordability is not limited only to families eligible for units financed by LIHTC. Consider that the median asking rent for an apartment constructed in 2017 was $1,550. For a renter to afford one of those units at the 30 percent of income standard, they would need to earn at least $62,000 annually. Accordingly, this is an issue impacting those supporting the very fabric of communities nationwide, including teachers, firefighters, nurses and police officers.

We urge Congress to consider the *Middle-Income Housing Tax Credit Act of 2018* (S. 3365) that Senate Finance Committee Ranking Member Ron Wyden introduced during the 115th Congress. The Middle-Income Housing Tax Credit takes over where LIHTC leaves off and is designed to benefit households earning below 100 percent of area median income.

- **Enhance Opportunity Zones to Incentivize Rehabilitation of Housing Units:** Enacted as part of tax reform legislation in 2017, Opportunity Zones are designed to provide tax incentives for investments in distressed communities.

  While we expect the program to be beneficial in spurring the production of new multifamily housing, we believe it could be improved to incent the rehabilitation of existing multifamily units. NMHC and NAA urge Congress to support statutory modifications to reduce the basis increase necessary to qualify a multifamily rehabilitation project for Opportunity Zone purposes.

- **Repeal Foreign Investment in Real Property Tax Act:** In 1980, Congress passed the Foreign Investment in Real Property Tax Act (FIRPTA) to tax foreigners' gains on the income they earn from, and then the sale of, U.S. real estate and other real property. In doing so, FIRPTA imposes significant costs on foreign investors in U.S. real estate, thereby serving as a significant barrier to such investment.

  Repealing FIRPTA or enacting additional reforms could unlock billions in foreign capital that could help to refinance real estate loans and drive new investment. NMHC and NAA strongly support FIRPTA repeal legislation, *Invest in America Act* (H.R. 2210), introduced on April 10 by Reps. John Larson and Kenny Marchant, and believe it would represent a beneficial component of any future infrastructure package.

The Housing is Infrastructure Act of 2019

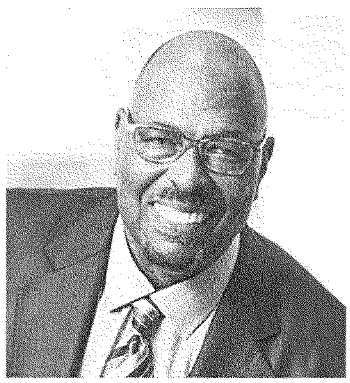
We applaud Chairwoman Waters for her work to make sure that housing is seen as a key and necessary component of any large infrastructure initiative undertaken by Congress and the Administration. Through the establishment of a CDBG set-aside, the Chairwoman is directing financial resources to create housing, remove or lessen burdensome and costly local regulation, entitlement processes and other cumbersome barriers to multifamily development in an effort to create more housing that is affordable across the country. Even further, making investments in the Housing Trust Fund as well as Rural and Native American housing programs are positive steps forward in addressing the housing affordability challenges we face. In all of these areas, we strongly urge the Chairwoman and her colleagues to look for ways to ensure deployment of these funds is as efficient as possible and leverages the expertise and abilities of private sector apartment developers, owners and operators.

Another area that the Chairwoman's draft legislation provides funding for is FEMA's Pre-Disaster Hazard Mitigation Program. We applaud the Chairwoman for being forward-thinking in seeing flood and disaster mitigation as a key piece of future-proofing our nation's housing stock and community infrastructure. Funds like these lessen fiscal pressure upon FEMA and taxpayers more broadly. We would encourage the Committee to consider prioritizing some of these limited grant dollars for multifamily and commercial property owners so they can more readily access these funds when mitigation is most cost effective and dollars go further.

We look forward to working with the Chairwoman, Ranking Member and other members of the Committee on this important discussion draft.

Conclusion

Housing and infrastructure are both critical nationwide needs. I applaud the Committee's efforts to explore this relationship and find solutions to the nation's most pressing housing challenges. Policymakers at every level of government have a role to play in removing obstacles to housing production, easing costs and creating a supportive environment for the providers of apartment homes. The apartment industry is committed to providing high-quality and attainable housing for all Americans. Using a combination of incentive-based programs, streamlined regulatory burdens and innovative solutions, we stand ready to work with Congress to achieve these goals.



Daryl J. Carter

Founder, Chairman and Chief Executive Officer
Avanath Capital Management, LLC

Daryl J. Carter is the Founder, Chairman and CEO of Avanath Capital Management, LLC, a California-based investment firm that acquires, renovates, and operates apartment properties, with an emphasis on affordable and workforce communities. Mr. Carter directs the overall strategy and operations of the Company. Since its formation in 2008, Avanath has acquired $1.5 billion of properties in 12 states in the U.S., comprising 8,000 apartment units. Avanath is vertically integrated and is an SEC registered investment advisor and an institutional fund manager, with capabilities that include acquisition sourcing and underwriting, construction, asset management, and on-site property management.

Mr. Carter has 37 years of experience in the commercial real estate industry. Previously, he was an Executive Managing Director of Centerline Capital Group. Mr. Carter became part of the Centerline team when his company, Capri Capital Finance, was acquired by Centerline in 2005. Mr. Carter co-founded and served as Co-Chairman of the Capri Capital family of companies. He was instrumental in building Capri to a diversified real estate investment firm with $8 billion in real estate equity and debt investments under management. Prior to Capri, Mr. Carter was Regional Vice President at Westinghouse Credit Corporation and a Second Vice President at Continental Bank.

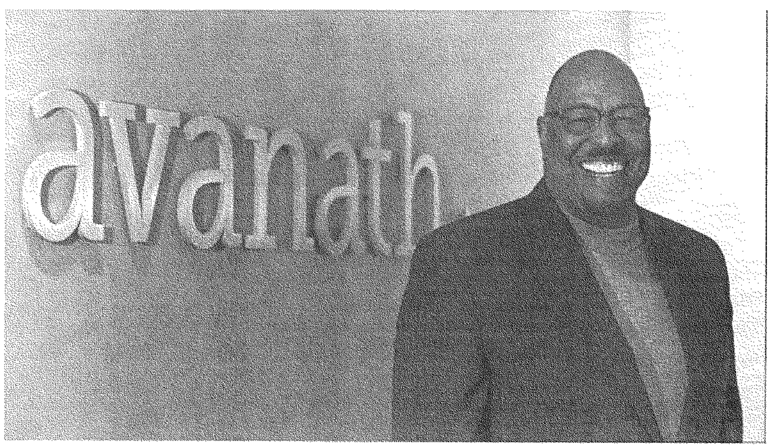
Mr. Carter holds a Master's in Architecture and a Master's in Business Administration, both from the Massachusetts Institute of Technology. He received a Bachelor of Science degree in Architecture from the University of Michigan. Mr. Carter serves on the Visiting Committee of the MIT Sloan School of Management. In 2015, Mr. Carter received the MIT Sloan School Distinguished Alumni Award and served as the 2015 commencement speaker for the Sloan School MBA graduation.

Mr. Carter is a Past Chairman of the National Multifamily Housing Council. Previously, Mr. Carter served as an independent director on the boards of the following companies: Catellus Development Corporation (CDX), Silver Bay Realty Trust (SBY), and Whitestone REIT (WSR).

Los Angeles Times

This apartment owner makes money by providing affordable homes

By ANDREW KHOURI
DEC 09, 2018 | 3:00 AM
https://www.latimes.com/la-fi-himi-carter-20181209-story.html



Daryl Carter is chief executive of apartment owner Avanath Capital Management, which invests in low- to middle-income housing. (Luis Sinco / Los Angeles Times)

Daryl Carter is founder and chief executive of Avanath Capital Management, an Irvine investment firm that owns nearly 9,000 apartments nationwide — both market-rate and affordable. About 75% of its units have some form of rent restriction, and 40% of residents receive rent subsidies under the federal Section 8 program.

Carter, a former chairman of the National Multifamily Housing Council, said Avanath's mission is to acquire properties, most of which are older, and make them nicer, while at the same time keeping them affordable. "I had a blessing of living in a house that was affordable," Carter said, adding he wants to give that gift to others so "they can pursue their dreams."

Growing up

Carter's affordable home was in Detroit, where his father worked in an auto factory and his mother worked as a nanny. Growing up in the 1960s, he loved construction and recalled stopping at building sites when he walked down the street. "I could watch for hours," he said.

He said his parents — who moved from the South for a better life — also encouraged him to strive for more. They'd point to the doctors, businesses owners and other wealthier individuals who also lived in their largely African American neighborhood, but on a tonier street.

"They would say you don't want to be jealous of people who lived on Oakman Boulevard," he remembered. "You want to live on Oakman Boulevard."

College years

Carter attended the University of Michigan, where he majored in architecture and played basketball.

After gaining his bachelor's degree, Carter went to MIT and graduated with a master's degree in architecture and an MBA.

Starting out

After MIT, Carter got a job at Continental Bank in Chicago just as a downturn was gaining steam. He was dispatched to south Florida to do workouts on unsold condominiums — a key learning experience, Carter said. Among the things to untangle: He and his team had to decide whether to sell units at 50 cents on the dollar, or maybe invest in some rehab and shoot for 80 cents.

"You have to use imagination," he said. "It makes you be very entrepreneurial."

Building a business

In 1992, Carter teamed up with high school friend Quintin E. Primo III, who was also in banking in Chicago. Together, they founded Carter Primo Chesterton, a real estate investment firm. The company would eventually become Capri Capital and handle billions of dollars' worth of real estate, including Baldwin Hills Crenshaw Plaza, which it is trying to redevelop.

Carter left during the middle of last decade to focus on housing and in 2007 launched Avanath, named after his daughter Ava and son Nathan. "They are only 17 months apart, so there is this great sibling rivalry," he said. "She likes to say, 'My whole name is in the company.' And he says, 'Well, I have more letters.' "

> You have to stay true to your vision, but you have to adjust that vision as you learn more about it.
>
> DARYL CARTER

Lessons learned

Be patient. Carter said that when he and Primo looked for funding to start their company, they had 56 rejections before someone finally said yes. In part, it was difficult because as two African Americans from a public high school in Detroit, they lacked many of the connections historically used to launch new firms in the heavily white real estate industry filled with monied families.

"We didn't look like who they typically bankroll," Carter said. Eventually, on the 57th meeting a company called Chesterton said yes.

"What happened with us is, each no we got better. Every no gives you information," Carter said. "You have to stay true to your vision, but you have to adjust that vision as you learn more about it."

Diversity matters

Today, he mentors young businesspeople of color and advocates for diversity in companies. He said Avanath is stronger because its employees come from many backgrounds and "talk about different things," allowing them to brainstorm smart solutions for the company and its residents.

"The reason we are successful in serving the communities we serve is that we are highly diverse," he said.

A gentler strategy

In the hot real estate market of recent years, investors have scooped up older apartment buildings in lower-income communities and evicted all the tenants to rehab units and double the rent. That's not Avanath's model.

Instead, Carter said, Avanath purchases buildings and works to keep existing tenants. It makes money by reducing vacancies that bring in no money. In some cases, where rent limitations don't prevent it, Carter said rent is raised after renovations.

But he said renovations are done without evicting tenants and provide residents with added benefits, such as an in-unit washer and dryer or energy-efficient lighting. He called the increases modest and said that properties are still affordable to those of lower and moderate incomes.

Beyond housing

Avanath also works with nonprofits to offer services at its properties. At its 528-unit subsidized community in Long Beach, financial literacy courses and an after-school program are offered. Avanath also installed a basketball court.

Carter said such services mean happier residents. And happier residents mean more money. "They stay. They pay their rent on time. They respect the property," he said. He called the strategy of emptying a building riskier. "You have to re-lease the building, and you probably get rid of a lot of good people," he said. "Turnover costs are expensive."

Changing perceptions

Carter said too many in the investment community hold misconceptions about Section 8 renters, including that many don't work and are bad tenants. Carter said 95% of Avanath's Section 8 tenants have jobs, but their incomes simply can't support sky-high rent. He said turnover at Avanath's properties is less than at the typical apartment building.

Many misconceptions stem from "debacles" of old-school public housing projects that became crime hot spots, Carter said, as well as general faulty perceptions about investing in black and Latino neighborhoods. Stereotypes have been so "overwhelming," Carter said, that at times he's turned to Europe to raise capital.

So Carter has undertaken a major effort to shift perceptions. On behalf of the U.S. Department of Housing and Urban Development, Carter has talked to property owners about the Section 8 program. He also brings people to Avanath communities to do walk-throughs.

"As many places as I can talk, I talk about Section 8 residents," he said. "Every time I speak, every time we talk to investors."

Personal time

In his spare time, the Coto de Caza resident loves to read and play golf with his son and basketball with his daughter. He's also a huge University of Michigan sports fan. The ringtone on his phone? The Michigan fight song.

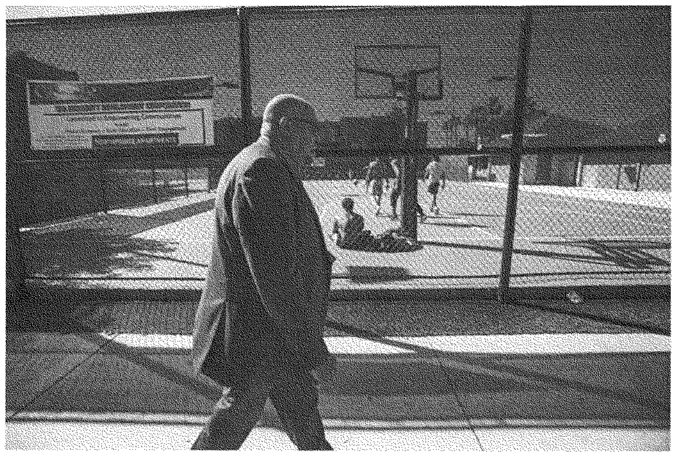
Andrew Khouri

CONTACT

Andrew Khouri covers the housing market for the Los Angeles Times. Before coming to The Times he wrote about commercial real estate for the San Fernando Valley Business Journal. He holds a master's degree in journalism from the University of Southern California's Annenberg School for Communication and Journalism and graduated from the University of San Diego with a degree in history.

NEWS

Developer changes affordable housing dynamic by investing in lives



LONG BEACH, CA – FEBRUARY 11: Daryl Carter, the founder and CEO of Avanath Capital Management, walks around one of his affordable housing complexes in Long Beach on Monday, Feb. 11, 2019. When Carter bought Northpointe Apartments several years ago, the complex was plagued with shootings and other crime. By bringing in some amenities such as a basketball court and after-school program, it has now become more family friendly. (Photo by Scott Varley, Torrance Daily Breeze/SCNG)

By **DAVID WHITING** | dwhiting@scng.com | Orange County Register
PUBLISHED: February 14, 2019 at 8:00 am | UPDATED: February 14, 2019 at 8:00 am

There is a large map on a large computer screen on Daryl Carter's desk that shows his company's portfolio of nearly 10,000 apartments that stretch from the shores of California to the New York waters.

In total, the properties are worth some $1.5 billion and what's astonishing is that
But it's not big bucks or turning around the image of Section 8 housing and their

corresponding partial rent vouchers that grabs my attention. It's the digital wallpaper on Carter's tablet.

I used to live in southeastern Michigan and the photo shows a tiny, well-kept home that reminds me of some streets in Detroit.

With one large hand — Carter is 6-foot-7 and played basketball for the University of Michigan — he holds up the tablet for easy review and smiles. "That's where I grew up."

It's a sentence of just a few words. Yet it reveals an impressive journey of rising up, hard work, perseverance and an unquenchable thirst to excel.

The more we talk, the more I learn about a man who does far more than live the American dream. He embodies it.

Deep South roots

In the midst of a long, wide-ranging conversation, Carter, now 63 years old, shares he's had two amazing mentors and that one was his father. Let's start there.

Nolan and Flossie Carter were born and raised in Mississippi, and, like thousands of African Americans, they headed north after World War II for a better life.

Settling in Detroit, Nolan Carter manned the line at the local Fisher Body Plant. Flossie Carter worked as a nanny. Together, the couple scraped and saved and by the time Carter was in junior high school his parents managed to buy a 900-square-foot bungalow with one bathroom for their family of five.

"Dad was old-school," Carter allows, eyes soft with memories. "He did not tolerate back talk."

More than anything, however, Nolan Carter worked hard to better himself and his family. "There's a parallel," says the son, "to my parents and me. I got my work ethic from both my parents and Dad was really pro-education and so was Mom."

Despite riots in 1967 that rocked Detroit and took 43 lives, summers found a wide diversity of people in their front yards chatting and sharing. With other dads, Nolan Carter walked to work and watched his son's basketball games in the evening.

Of growing up in blue-collar Detroit, Carter has no complaints. He says it toughened him for being prepared for life's challenges.

After high school, Carter played on the freshman squad at University of Michigan. But in his second year foot injuries ended his basketball career.

No matter. Carter knew his calling wasn't sports. It was something to do with housing and finance. After graduating University of Michigan, he went to MIT where he earned a master's degree in architecture as well as an MBA.

His knowledge and skills landed him job offers in Houston, Denver, Chicago. To be near family and with a love for the Windy City's sizzle, Carter chose Chicago and Continental Bank.

Tellingly, at the relatively tender age of 27, he bought his first home. It cost $45,000.

After five years, he transferred to Southern California where temperatures were in the 70s instead of Chicago's minus-5 degrees. From offices in Irvine, he managed the company's loans during the 1980s real estate boom. Soon, he was named second vice-president.

Next, he accepted an offer with Westinghouse Credit Corporation where he served as regional vice president.

But all along, he was restless with his own vision: better homes for people with limited income.

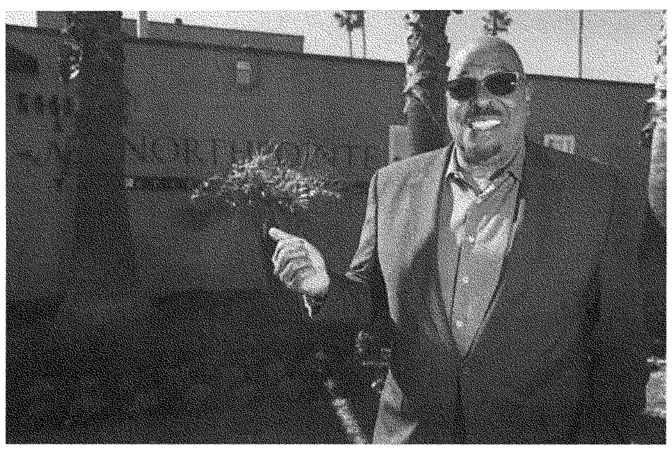
Reaching out

Carter, a recent recipient of Christ our Redeemer AME Church's Martin Luther King Drum Major Award, looks at me and explains you can't talk about affordable housing without touching on race.

As past chairman of the National Multifamily Housing Council, a review of his previous talks bears this out. He once told Ebony magazine of his early years: "I got involved in lending to builders who built large subdivisions. You'd look at their ads and they featured a perfectly scrubbed blonde couple with blonde kids and big smiles.

"Everything that went along with the industry was really not focused on a major group of the population," he continued. "The reason many neighborhoods have declined, whether it's Oakland or other places, it's not necessarily because of who lives there but because there's a lack of investment."

In 1992 and with a buddy from his high school days, Quintin Primo III, Carter co-founded a company named Capri Capital. The goal was to prove that affordable housing could be a solid investment.



It took 57 meetings before Carter and his business partner heard a "yes" for capital and Carter says there's a lesson there. "You don't take it personally. You hear, 'no,' and you try to understand why and make your next pitch better.

"How'd we get to meeting 57?" he asks. "Because we had a meeting with person 56."

You might say things worked out.

They convinced pension funds that emerging markets included such places as South Central Los Angeles and North Long Beach. By the time he sold and left Capri, the firm had $8 billion in real estate equity and debt investment.

"If you prove you can make money and make it sustainable," Carter says, "the capital will flow."

Making a difference

A decade ago, Carter founded Irvine-based Avanath Capital Management, a merger of his daughter's name, Ava, and his son's, Nathan.

The CEO reports there are many myths about affordable housing. One is that it's free. Wrong. Vouchers pay for only part of the rent. Another is that renters don't work. In fact, the only people with Section 8 vouchers who don't work are elderly and disabled and comprise a small fraction of that population.

Carter explains affordable housing is exactly that. He offers an example of two Walmart workers getting by, but unable to live locally. "Income is low," he points out, "and housing costs are high."

Instead of trying to build affordable homes, Avanath's strategy is to rebuild and renovate.

The secret to successful affordable housing, he says, is keeping up with maintenance and offering improvements that truly make a difference in occupants' lives. As an example, he offers that instead of scraping antiquated popcorn ceilings it's better to install washers and dryers in every unit.

Low incomes often means both parents work, he continues, and one of the best ways to ensure that kids avoid gangs and do their homework is to offer after-school assistance. "Nonprofits need space so you put those programs in an apartment comp ex and you have just solved a prob em.

"If you enhance satisfaction," he says, "there is less turnover and residents feel safer because they know their neighbors."

The sweet spot is that improvements end up increasing profits. "We have less turnover and less expense."

In a newly renovated area of Long Beach named Northpointe Apartments, Carter says such improvements as app-based requests for repairs and well-lit basketball courts have helped bring community together.

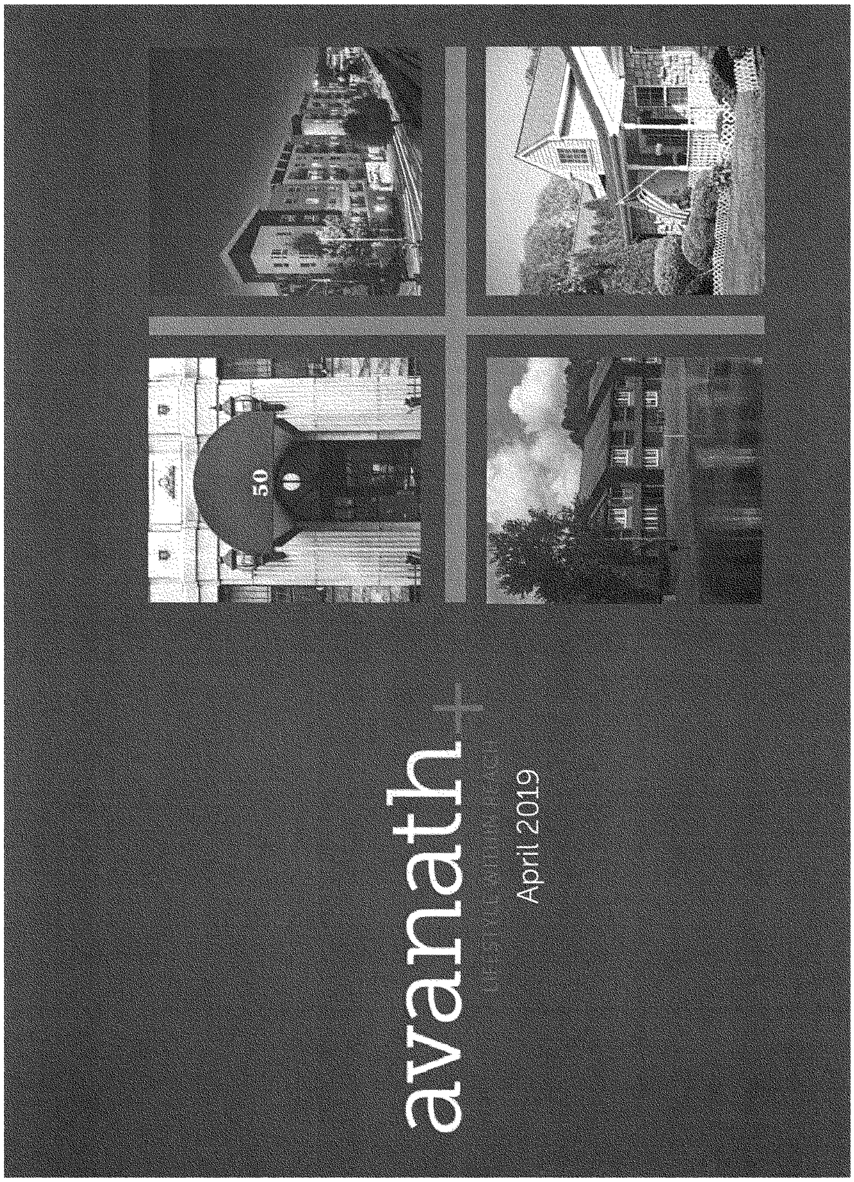
Still, Carter takes his mission one step further with his up-close and personal approach.

At Northpointe, for example, he went out of his way to meet with gang members and explain what he was trying to do: make their living conditions better.

Did the gang members listen?

Carter says they did. And he's honest enough to admit his Motor City roots helped.

"They know I come from a similar place."


avanath
LIFESTYLE WITHIN REACH
April 2019

about avanath

» California-based investment firm focused on acquiring, renovating, and managing affordable and workforce housing throughout the U.S.

» Holistic investment approach – invest in brick and mortar and in services and activities that support the betterment of the community and our residents.

» Vertically integrated platform with 223 employees nationwide, including 162 person in-house property management team and 7 person dedicated property compliance team. The firm is supported by two corporate offices located in Irvine, CA (HQ) and Bethesda, MD as well as regional offices located in Orlando, FL, Chicago, IL, and Sacramento, CA.

» Seasoned executive team with over 20 years of collaboration in prior firms before teaming up again to pursue an investment strategy focused on economic and social goals.

avanath overview

TOTAL ASSETS UNDER MANAGEMENT* $1.7 B

PORTFOLIO OVERVIEW	
States	12
Cities	42
Markets	13
Communities	75
Family Communities	60
Senior Communities	15
Units	9,228
Average Occupancy	98%

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* Projected as of March 2019

the strategy

Housing America's workforce

- **Experienced owner/operator**– approved in 12 states with 27 regulatory agencies. Highly focused on developing and maintaining strong working relationships with regulatory agencies.

- **Upside potential** – proprietary deal flow, expense savings initiatives, opportunities to enhance occupancy by creating pride of rentership, improve rent growth, strategic refinancing and disposition of select assets

- **Attractive growth markets** – strategic locations in areas with highest demand for affordable multi-family apartments and greatest constraints to new supply

- **Impact investing** – socially responsible investments (housing for middle-/lower-income families), without compromising strong current and total returns

executive leadership team

Diverse, cycle-tested executive team led by Daryl Carter – an industry veteran with over 37 years of real estate expertise

avanath footprint

WASHINGTON
Maple Crossing, *Maple Valley*
Silver Springs, *Seattle*
Lodge at Peasley, *Seattle*

NORTHERN CALIFORNIA
Renwick Square, *Elk Grove*
Sutter Terrace, *Roseville*
Natomas Park, *Sacramento*
Oak Village, *Oakland*
Woodcreek Terrace, *Elk Grove*
Sierra Creek, *Sacramento*
Geneva Pointe, *Elk Grove*
Lincoln Creek, *Dixon*

SOUTHERN CALIFORNIA
Heritage Park, *Duarte*
Hudson Gardens, *Pasadena*
Rancho Carrillo, *Carlsbad*
The Terraces, *Escondido*
Castelar, *Los Angeles*
Northpointe, *Long Beach*
Seaport Village, *Long Beach*
Woodside, *Ontario*

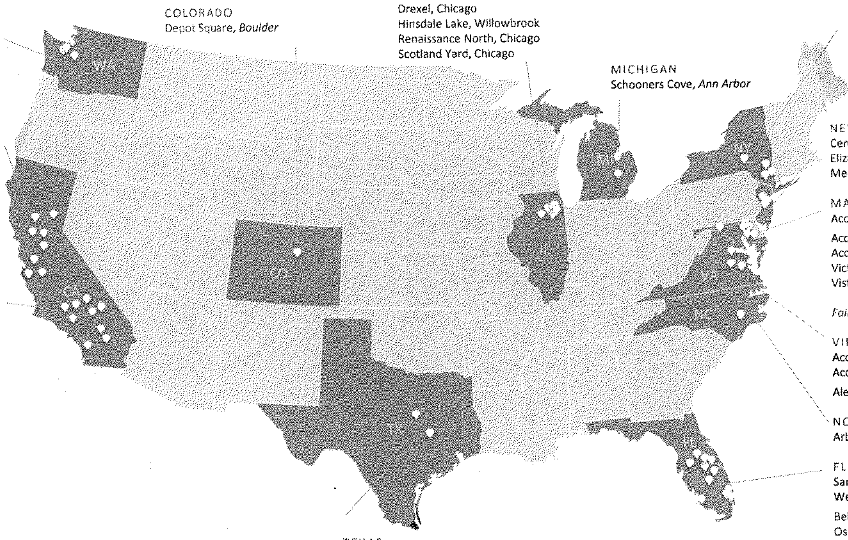
Huntington Breeze, Huntington Beach (PENDING)

FUND I
FUND II
FUND III
FUND IV

COLORADO
Depot Square, *Boulder*

ILLINOIS
Country Wood, Naperville
Drexel, Chicago
Hinsdale Lake, Willowbrook
Renaissance North, Chicago
Scotland Yard, Chicago

MICHIGAN
Schooners Cove, *Ann Arbor*



TEXAS
Cooper's Crossing, Irving
Blunn Creek, Austin

NEW YORK
Brooklyn II & III Portfolios, *Brooklyn*
Grand Pointe, *Poughkeepsie*
Invincible Court, *Harlem*
Eagle View Court, *Middle Island*
Brooklyn I Portfolio, *Brooklyn*

NEW JERSEY
Centennial Court, *Wharton*
Elizabeth Towers, *Elizabeth (PENDING)*
Menlo Manor, *Edison*

MARYLAND
Acclaim at Germantown, *Germantown*
Acclaim at Largo, *Largo*
Acclaim at Victoria Manor, *Temple Hills*
Victoria Park, *Edgewater*
Vistas at Lake Largo, *Largo*

Fair Spring, Baltimore (PENDING)

VIRGINIA
Acclaim at Ashburn, *Ashburn*
Acclaim at Sterling, *Sterling*
Alexandria Station, *Alexandria*

NORTH CAROLINA
Arbors at Cary, *Cary*

FLORIDA
San Rocco, *Orlando*
Wellington Woods, *Kissimmee*
Bella Cortina, *Orlando*
Osprey's Landing, *Naples*
Ravenna, *Orlando*
Savannah I, *Gainesville*
Coral Isle, *Ft. Lauderdale*
Harbour Beach, *Ft. Lauderdale*
Harbour Pointe, *Ft. Lauderdale*
Savannah II, *Gainesville*

Brooke Commons, Orlando (PENDING)

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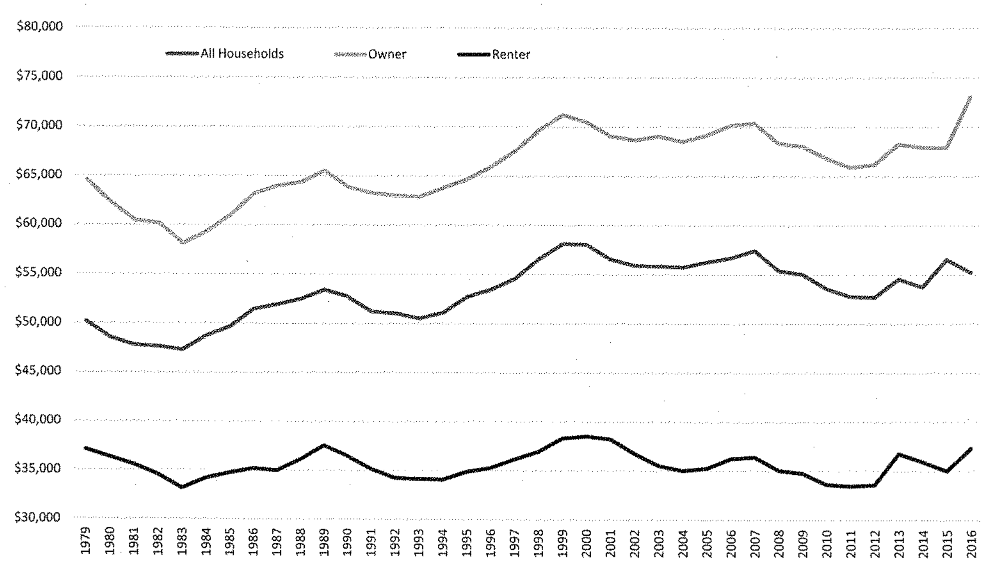
affordable housing data

affordable housing data

Median income of renters is $38,000



Source: Census Bureau; NMHC

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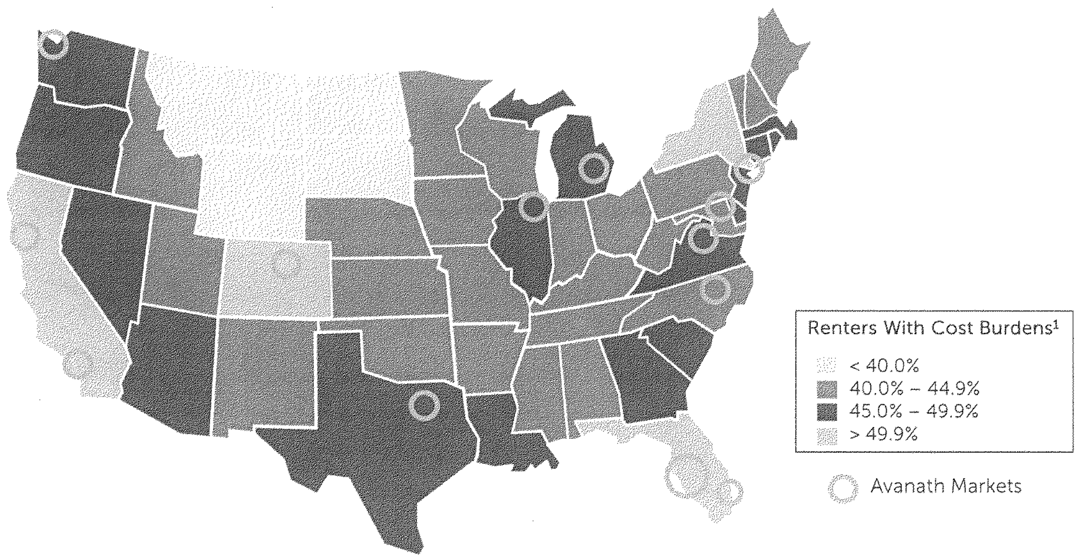
affordable housing market

Avanath invests in markets where renters have high cost burdens



[1] Renters with Cost Burdens are defined to be households with housing costs that represent more than 30% of household income; source: JCHS tabulations of US Census Bureau, 2011 American Community Survey

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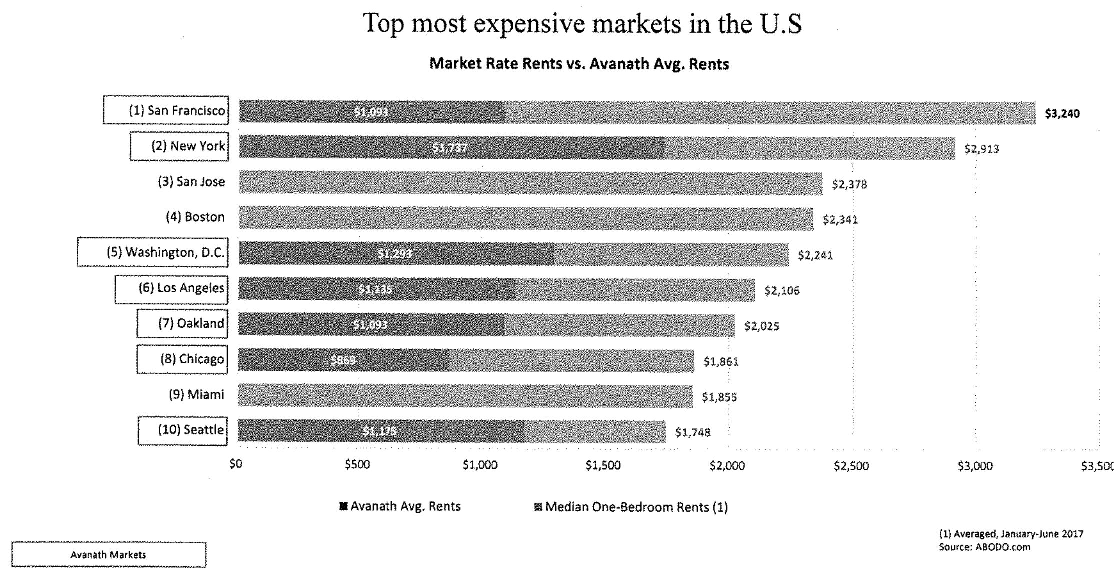
affordable housing market

Avanath invests in markets where renters have high cost burdens



(1) Averaged, January-June 2017
Source: ABODO.com

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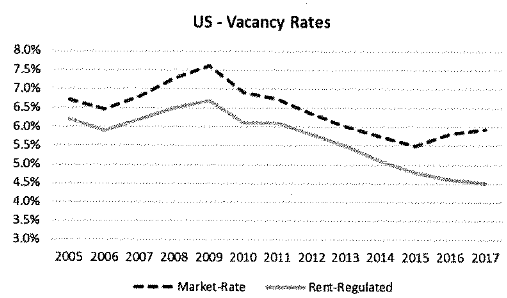
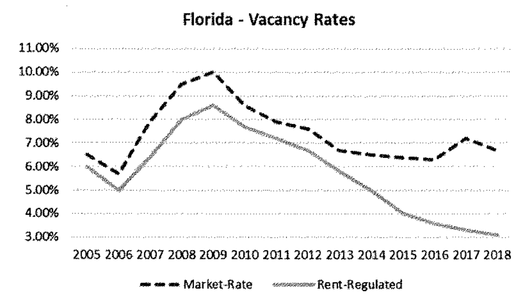
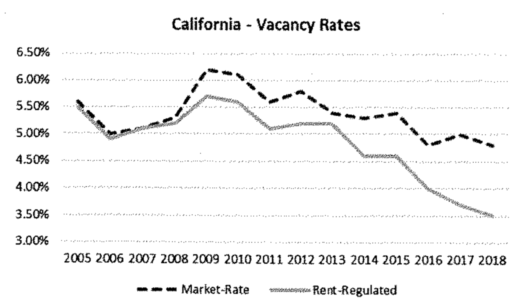
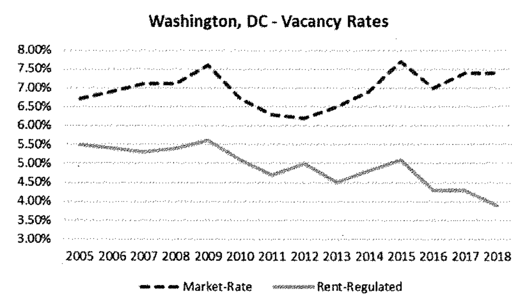
affordable housing market

High tenant demand leads to lower vacancy rates than conventional rentals









Source: Costar, September 2018

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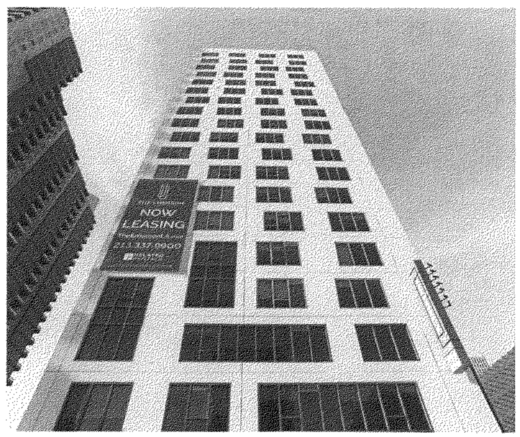
affordable housing market

A tale of two properties – market rate compared to affordable housing

The Emerson LA

Rent Levels: $2,800 - $5,000



Castelar Apartments

Rent Levels: $610 - $1,300

The Emerson LA is a luxury apartment building located 1 mile southwest of Castelar Apartments in downtown Los Angeles. The assets are a prime representation of the rental gap in major metropolitan areas.

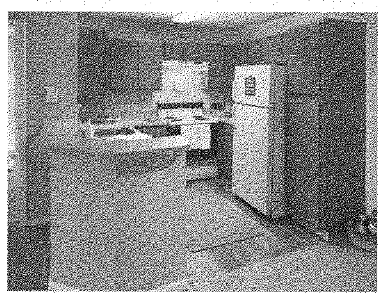
avanath+

portfolio case studies

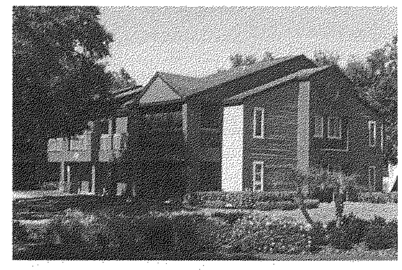

Bella Cortina
Orlando, Florida
304 Units
$34,110,167 Total Cost

bella cortina

Before



After



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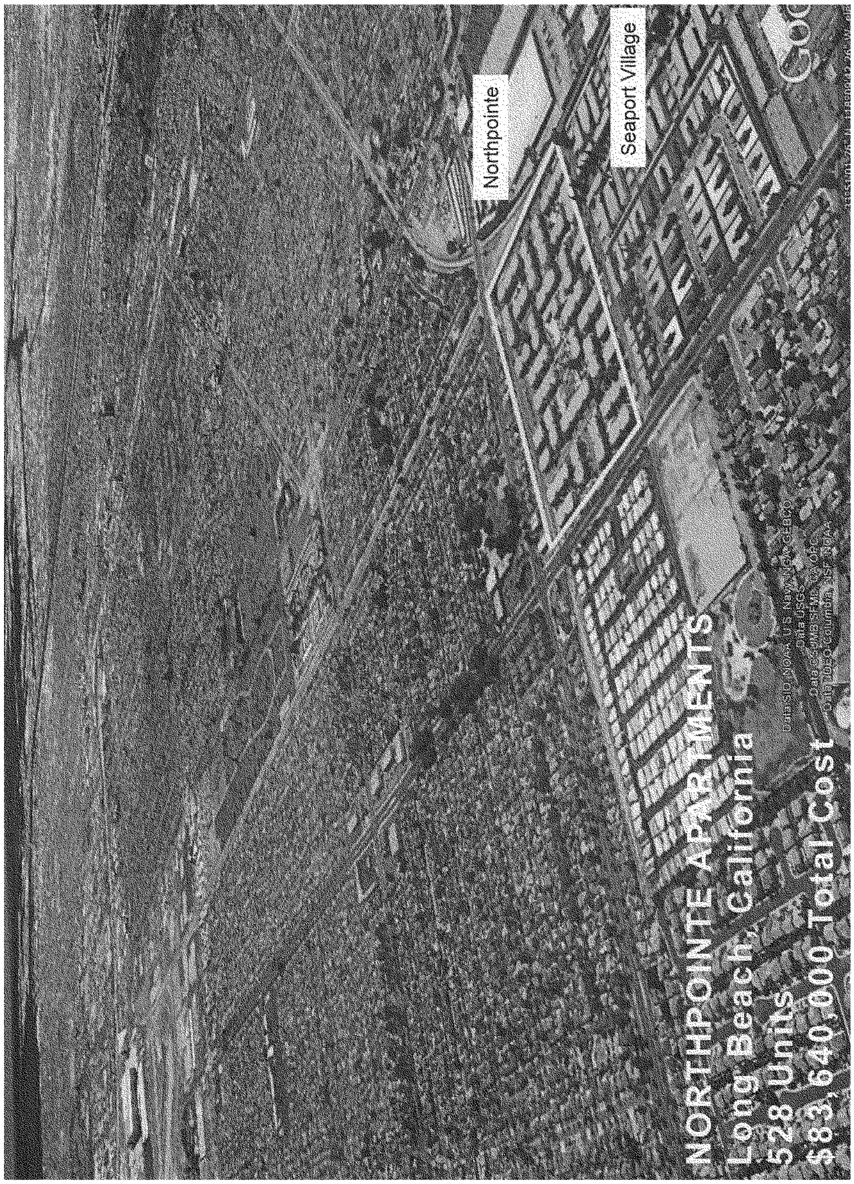
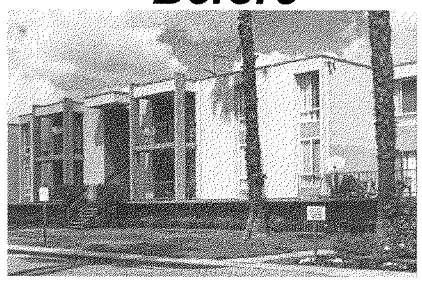
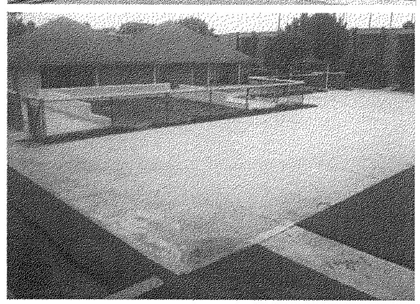

Northpointe
Seaport Village
NORTHPOINTE APARTMENTS
Long Beach, California
528 Units
$83,640,000 Total Cost

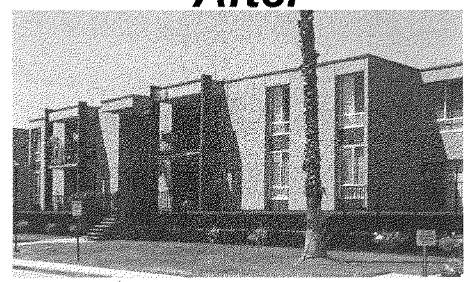
northpointe

Before





After



avanath+

impact investing

impact investing

Responsible investment through social programs and environmental sustainability initiatives

Social Programs

- Senior activities & transportation services
- Job readiness & career workshops
- After school and summer youth programs
- Computer training
- Adult education classes

Environmental Initiatives

- Solar panel installations
- Drought tolerant xeriscaping
- LED light installations
- Members of the Principles for Responsible Investing as well as the California Organized Investment network.

PRI Principles for Responsible Investment

CALIFORNIA ORGANIZED INVESTMENT NETWORK

health & wellness program

By 2030 all baby boomers will be older than 65

Avanath is working to develop protocols for residents to age in place

Recent studies show that a healthy lifestyle increases duration and quality of life.

- Fitness enrichment
- Nutrition education
- Health education & services
- Preventative health screenings

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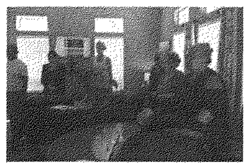
measuring impact



PERSONAL + PROFESSIONAL DEVELOPMENT

146 Personal and professional development workshops held

291 Residents participated in personal and professional development workshops

FITNESS + WELLNESS

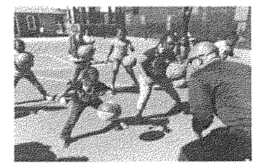
724 Hours of senior and adult fitness

187 Residents participated in fitness and wellness services

COMMUNITY + CIVIC ENGAGEMENT

617 Residents participated in community and civic engagement services

851 In-kind donations by schools, businesses, and government agencies

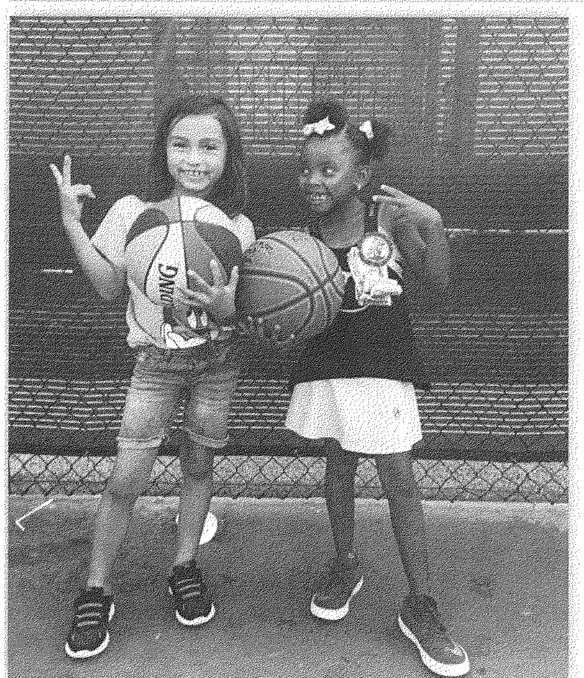


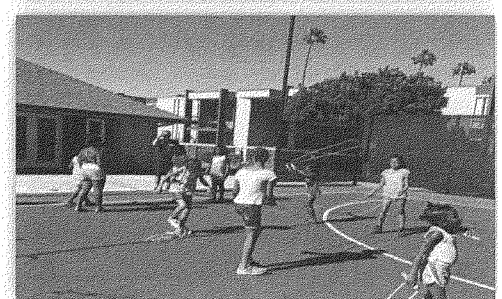
YOUTH EDUCATION + ENRICHMENT

964 Residents participated in youth enrichment services

448 Hours of mentorship

girls basketball





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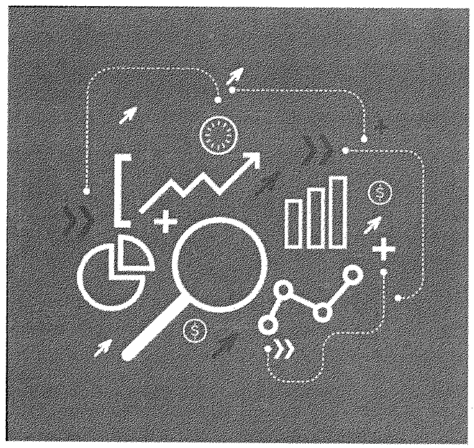
measuring impact

Reimagining **IMPACT**
Doing Good and Measuring Good



A study conducted by Brad Christensen, Professor of Sociology at Biola University and Richard Flory, Senior Director of Research Evaluations for the USC Center for Religion and Civic Culture.

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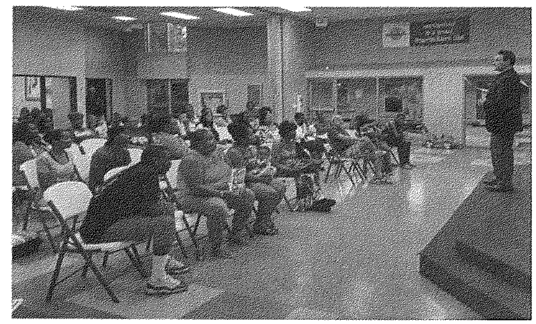
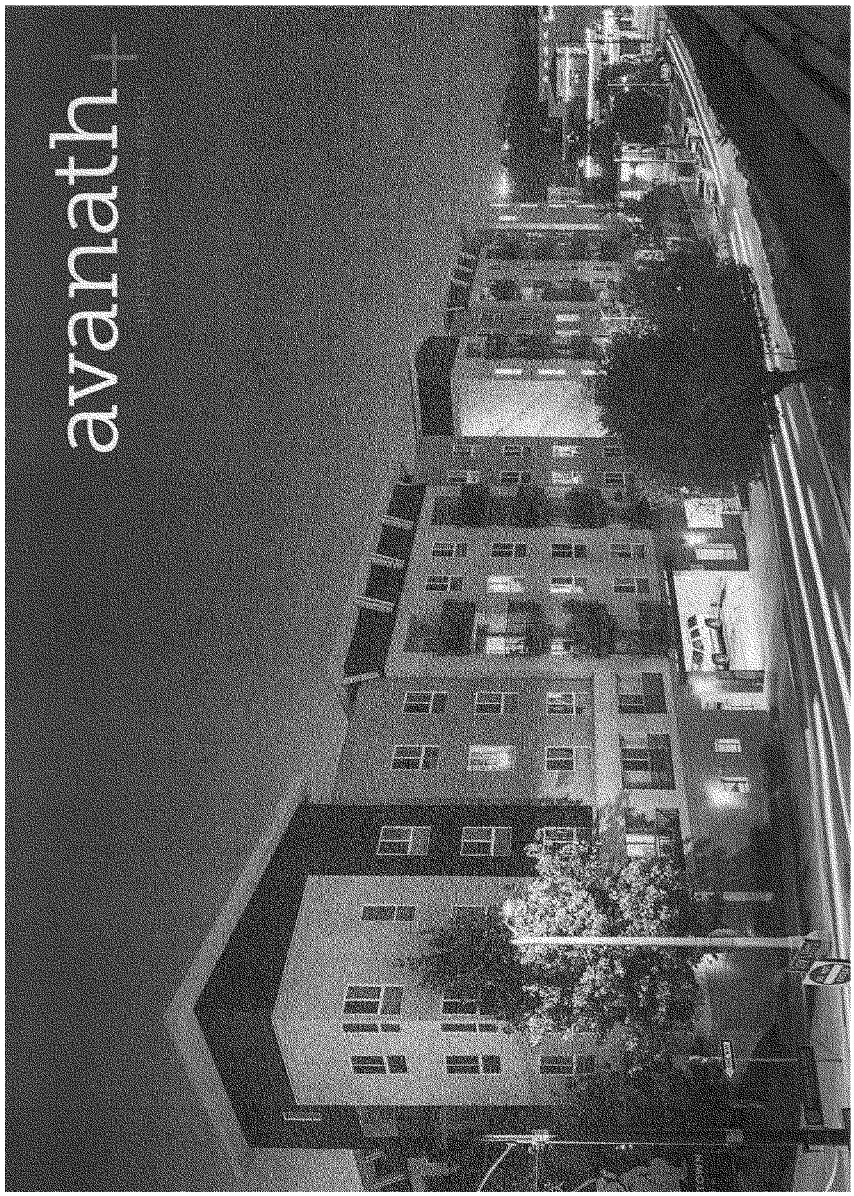
Civic engagement – increasing voter turnout



- 9.5% voter turnout in 2014 general election
- 50.4% voter turnout in 2016 general election
- 40.9% increase in 22 months of civic engagement initiatives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"Gross IRR" means an aggregate, annual, compound, gross internal rate of return on investments. In the case of portfolios of realized and unrealized investments, the Gross IRRs are based on realizations and internal valuations of Avanath as of the applicable date. Gross IRRs presented herein do not reflect management fees, carried interest, taxes, transaction costs in connection with the disposition of unrealized investments and other expenses that are borne by investors in each Fund, which will reduce returns and in the aggregate and are expected to be substantial. "Net" IRRs reflect all management fees, carried interest, transaction costs, and other expenses (other than taxes borne or to be borne by investors).

In particular, the projected returns have been prepared based on Avanath's current understanding of the intended future operations of the properties, its current view in relation to future events and financial performance of the properties and various estimations and assumptions made by Avanath and by the companies' management, including estimations and assumptions about events that have not occurred, any of which may prove to be incorrect. Therefore, the projected returns are subject to uncertainties, changes (including changes in economic, operational, political or other circumstances or the management of the companies) and other risks, including, but not limited to, the impact that market and economic risks may have on exit strategies, broad trends in business and finance, legislation and regulation affecting the companies, monetary and fiscal policies, interest rates, inflation, currency values, market conditions, the availability and cost of short-term or long-term funding and capital, all of which are beyond Avanath's control and any of which may cause the relevant actual, financial and other results to be materially different from the results expressed or implied by such projections. Industry experts may disagree with the projected returns, the estimations and assumptions used in preparing the projected returns or Avanath's view or understanding of the companies. No assurance, representation or warranty is made by any person that any fund will reflect any particular performance or that it will achieve or is likely to achieve any particular result or that investors will be able to avoid losses, including total losses of their investment. The actual returns on a disposition of the portfolio investments referred to herein may be either greater or less than illustrated herein, and you should not rely on the projected returns. While Avanath believes that its assumptions are reasonable, Avanath cautions that it is very difficult to predict the impact of known factors, and, of course, it is impossible for Avanath to anticipate all factors that could affect actual results.

Testimony of Steve Lawson

President, The Lawson Companies

On Behalf of the

National Association of Home Builders

Before the

House Financial Services Committee

Hearing on

"Housing in America: Assessing the Infrastructure Needs of America's Housing Stock"

April 30, 2019

Housing in America: Assessing the Infrastructure Needs of America's Housing Stock

Introduction

Chairwoman Waters, Ranking Member McHenry, I am pleased to appear before you today on behalf of the National Association of Home Builders (NAHB) to share our views regarding barriers to constructing affordable housing and infrastructure. My name is Steve Lawson and I am a third-generation home builder from Virginia Beach, Virginia. As president of The Lawson Companies, I oversee a portfolio of more than 5,000 apartments and $15 million in annual construction and development. I am proud to say the Lawson Companies serve the full range of housing needs, from low-income renters to home buyers in the luxury market. I am also the immediate past Chairman of NAHB's Multifamily Council, which represents NAHB members who build market-rate and affordable rental apartment buildings, condominiums, student rental housing and mixed-use development projects.

NAHB represents more than 140,000 members who are involved in building single-family and multifamily housing, remodeling and other aspects of residential and light commercial construction. NAHB's members construct approximately 80 percent of all new housing in the United States each year.

Many of our builders, including myself, rely on both government and private programs and financing sources to help provide decent, safe and affordable single-family and multifamily housing to our fellow citizens. Today, I would like to discuss factors that inhibit new housing construction and reduce housing affordability. This hearing offers a valuable opportunity to examine the costs associated with the infrastructure needed to support new single-family and multifamily developments.

Housing Affordability Is a Major NAHB Priority

Safe, decent and affordable housing provides fundamental benefits that are essential to the well-being of families, communities and the nation. For these reasons, housing affordability is among NAHB's top advocacy issues this year. We are calling on Congress and the Administration to make housing affordability a national policy priority. Likewise, federal, state and local officials should work in partnership with the private sector to help hard-working Americans purchase or rent affordable homes. Through these actions, we will also create jobs and move the economy forward.

NAHB's research shows that housing affordability in the single-family market is at a 10-year low.[1] Only 56.6 percent of new and existing homes sold in the fourth quarter of 2018 (October through December) were affordable to families earning the U.S. median income of $71,900. Although the national median home price decreased from the third quarter of 2018 to the fourth quarter, average mortgage rates rose by 17 basis points over the same period. This was the fourth straight quarterly rate hike and the highest rate level since the second quarter of 2011.

Owning or renting a suitable home is increasingly out of financial reach for many households. In fact, almost a third of the nation's households are cost burdened and pay more than 30 percent of their income for housing.[2]

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[1] Rose Quint, "Housing Affordability Holds Steady at a 10-Year Low in the Fourth Quarter," NAHB Eye on Housing Blog, February 14, 2019.

[2] "The State of the Nation's Housing 2018." Joint Center for Housing Studies of Harvard University. 2018.

As a nation, we can and must do better. American home buyers and renters at all socioeconomic levels should have a choice in securing safe, decent and affordable housing in quality neighborhoods. Low-and moderate-income families, including members of the armed forces, teachers and first responders should be able to afford to live in a home or apartment in the communities they serve. NAHB strongly believes that increasing the inventory of new single-family and multifamily housing is a key to improving housing affordability. Builders simply have not been able to construct the necessary number of units to balance the supply and demand for affordable housing.

Overview of the Land Development Process

Creating vibrant communities is no easy task. The dream begins with a lengthy, costly and inherently risky land development process. The development approval process varies greatly from one place to another, and often requires several layers of local, state, and occasionally federal permits and approvals. A flow chart at the end of my written statement provides an overview of the steps that are common to the process in many jurisdictions.[3] I would emphasize that the time needed to obtain all of the approvals and permits to begin development can span from several months to many years. All the while, the developer's financial investment is at risk.

Developers incur substantial costs at every step in the land development process, even before they secure their loans. Some examples of development and construction costs are:[4]

Types of Costs Incurred During Development:

- Pure cost of delays in process;
- Cost of applying for zoning / subdivision approval;
- Costs incurred after approval / before construction (impact fees, environmental mitigation, etc.);
- Value of land dedicated / left unbuilt; and
- Costs of complying with changes in development standards (setbacks, road widths, etc.).

Types of Costs Incurred During Construction:

- Pure cost of delays in process;
- Added costs due to changes in construction codes and standards over the past 10 years; and
- Permit, hook-up, impact, or other fees paid by builder.

Factors that Affect Housing Affordability

Ongoing job creation and solid household formations are driving strong demand for housing. Unfortunately, rising costs are constraining builders' ability to construct new homes and apartments at affordable prices to meet the demand. NAHB believes that an insufficient supply of housing is at the root of much of the affordability crisis.

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[3] National Association of Home Builders, "Land Development Checklist," December 2013, pgs. 8-9.
[4] Paul Emrath, Ph.D. "How Government Regulation Affects the Price of a New Home." *Housing Economics*, 2011.

Several factors account for the increased building costs and insufficient supply of new housing, such as regulations, availability of buildable lots, lack of skilled labor, cost of building materials and financing expenses.

These costs are having a direct negative effect on housing affordability. NAHB's "Priced Out" Estimates for 2019 show that 127,560 households would be priced out of the housing market if the median U.S. new home price rises by $1,000.[5] In other words, based on their incomes, 127,560 households would be able to qualify for a mortgage to purchase the home before the price increase, but not afterward. Similarly, a $1,000 increase in the cost of building a new rental unit will price out almost 20,000 renters for that apartment;[6] the household would be rent-burdened after the rent increase, but not before. (These calculations are explained in greater detail in a later section of this statement.)

In order for developers who plan to build new single-family homes or apartments to move ahead with a project, they must be sure that there is demand for new housing in the local market area and that they can build homes buyers or renters can afford. A developer must demonstrate that these factors can be achieved in order to obtain financing.

Multifamily developers cannot secure financing unless they can demonstrate to lenders that the rents will be sufficient to cover costs and pay off the loans. The builder / developer needs the mortgage to construct the property, and the loan underwriting requires rents that produce enough revenue to pay the mortgage. If the builder / developer cannot charge the rents that are necessary to pay back their construction loans, cover costs and ensure the properties are financially sustainable over the long term, the deal is infeasible, and it simply will not be done. This dynamic explains why the majority of new multifamily construction over the past several years has been limited to luxury properties in strong markets.[7]

The single-family market presents similar challenges to building for low- to moderate-income home buyers. Construction costs are high, and interest rates are increasing, which leaves many low- and moderate-income buyers on the sidelines, unable to afford new homes. If the builder cannot sell the new homes at the projected price points, he or she faces considerable financial losses.

I cannot stress enough that the shortage of new housing units affordable to low- and moderate-income families reflects market realities, not a lack of interest in serving low- to moderate-income renters and home buyers. Builders and developers would be glad to serve families at all income levels if they could simply make the numbers work.
Unfortunately, it is impossible to build new apartments affordable to low-income families without some type of government assistance to increase equity, such as the Low Income Housing Tax Credit, or deep rental subsidies.

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[5] Na Zhao, Ph.D. "NAHB Priced-Out Estimates for 2019," NAHB Economics and Housing Policy Group Special Studies, January 2, 2019.
[6] Based on the 2018 median rent of $2,189, a $1000 increase in the cost of building a new apartment unit would price out 19,617 renters.
[7] Only 6 percent of the unfurnished apartments completed in 2017 has asking rents under $850 per month. U.S. Census Bureau, Characteristics of Apartments.

Substantial Upfront Development and Building Costs Reduce Housing Affordability

Regulations at All Levels of Government Exceed Safety and Soundness

Regulations at all levels of government now account for 24.3 percent of the final price of a new single-family home built for sale[8] and 32.1 percent of multifamily project costs.[9] Overregulation of the housing industry is felt at every phase of the building process. It results from local, state and federal mandates and includes the costs of applying for zoning and subdivision approval, environmental mitigation, and permit, hook-up, impact and other government fees paid by the builder. These added costs result in reduced affordability. In many cases, upfront regulatory costs make projects financially infeasible and they are not built.

As a small business owner operating in a heavily regulated industry, I understand how difficult, and often costly, it can be to comply with the myriad of government regulations that apply to my day-to-day work. This is particularly noteworthy in an industry where margins are so thin and consumers' sensitivity to price fluctuation is so acute.

I would emphasize that NAHB does not believe ***all*** regulation is bad. Reasonable people would agree that there is a role for sensible regulations to protect health, safety and fair housing rights. However, mandates at all levels of government have expanded beyond basic safety and soundness considerations and morphed into complicated compliance regimes, expensive code changes, energy efficiency mandates and / or restrictive land use policies. The compliance costs and fees associated with such policies are exacerbating the difficulty of providing safe, decent and affordable housing.

When regulatory and compliance costs account for nearly one quarter of a single-family home price and one-third of the multifamily project cost, it is time to take a hard look at the *cumulative* effect of regulatory requirements. It has become relatively common for proposed federal legislation or regulations to encourage local jurisdictions to adopt particular types of building codes or land development patterns. An informed discussion of these proposals should acknowledge that although not all regulation is bad, it does have an impact on the affordability of housing, and that should be a strong consideration.

Inclusionary Zoning (IZ)

Some localities have tried to address housing affordability through inclusionary zoning (IZ), which requires that a portion of new construction be designated as affordable housing for those with low or moderate incomes. Specifically, IZ policies typically require developers to subsidize a specified percentage of total units within market-rate single-family or multifamily developments and to set income-based price controls for the subsidized units. NAHB is concerned that there is too much focus on IZ as the single preferred method of achieving housing affordability.
IZ is a well-intentioned, but often counterproductive "quick fix" that seldom yields the desired results. IZ is a complex undertaking, one with many more moving parts and practical considerations than most communities realize or are equipped to administer. In the typical case where there are no or insufficient offsetting subsidies, it effectively acts as a tax, resulting in higher rents on non-subsidized apartments or higher prices for non-subsidized single-family

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[8] Paul Emrath, Ph.D. "Government Regulation in the Price of a New Home," NAHB Economics and Housing Policy Group Special Studies, May 2, 2016.
[9] Paul Emrath, Ph.D. and Caitlin Walter, Ph.D. "Multifamily Cost of Regulation 2018 Special Study," National Association of Home Builders and National Multifamily Housing Council, June 12, 2018.

homes. When affordability mandates like IZ are present, complying with them accounts for 5.7 percent of multifamily development costs,[10] indicating that IZ is more often part of the problem than the solution. As previously mentioned, during the underwriting process, a builder has to prove that the overall rents will cover the cost of the mortgage. To cover the overall cost of the mortgage, when rents are decreased because of subsidized IZ units, the developer is forced to increase the market-priced units. In many instances, the middle class is no longer able to afford the market-priced units and they are ineligible for the subsidized rates. IZ simply shifts the affordability burden without solving the long-term affordability issues.

IZ may be feasible if the right incentives are available, but there are other preferable approaches such as planning and zoning changes to assess development capacity and encourage affordable housing. Expedited permitting processes and advocacy efforts to reduce NIMBYism can also have broad effects on housing affordability.

Exclusionary Zoning

At the other extreme is exclusionary zoning, whereby municipalities impose costly ordinances that make it impossible to build affordable homes in those areas. Many local ordinances imposed by municipalities serve important health, safety, and welfare purposes. Exclusionary zoning ordinances do not achieve these goals and often have the effect of restricting land usage to low density, high-cost, residential development. These restrictions can limit available housing options for low- and moderate-income families. Such ordinances take various forms, such as:

- Minimum floor area requirements;
- Minimum lot size requirements;
- Costly design or aesthetic requirements;
- Restrictions on multifamily housing; and
- Restrictions on mobile and modular homes.

For instance, a municipality may ban vinyl siding on homes or require all four sides of a house to be made of brick. These mandates do nothing to advance health or safety, but they substantially drive up construction costs and the price of homes.

Eliminating exclusionary planning and zoning practices will encourage the production of the full range of housing options for all members of the community.

Impact Fees

The United States is experiencing a public infrastructure financing deficit that is the result of increased demand for new and upgraded infrastructure systems coupled with diminished fiscal resources. Communities have turned to impact fees as a politically expedient means by which to construct public infrastructure systems. However, the use of impact fees may shift much of the financial burden away from all public infrastructure users (the general public) to a narrow segment of the public— home builders and new home buyers. Where they are imposed, impact fees levied by local governments are the price of admission for developers, and they drive up the cost of new single-family homes and apartments.

[10] Paul Emrath, Ph.D. and Caitlin Walter, Ph.D. "Multifamily Cost of Regulation 2018 Special Study," National Association of Home Builders and National Multifamily Housing Council, June 12, 2018.

Typically, impact fees are:

- Levied on an "up-front" or "front-end" basis, usually at the time of building permit issuance or subdivision approval;
- Dedicated to a specific public use, such as transportation facilities, sewer facilities, water facilities, or parks and recreation facilities, etc.;
- Calculated on the basis of the number of residents or bedrooms in a dwelling, the square footage of a building, the linear footage of the front property line, or as a flat fee per unit or building lot, or some other formulation; and,
- Prescribed by ordinance, although the dollar amount may or may not be specified.

Unfortunately, the effect of impact fees is to drive up the cost of housing and reduce affordability. Although the developer may pay the impact fee upfront, the ultimate burden of payment will, to varying degrees, be passed to new home buyers or renters as higher home prices, higher rents or smaller units with fewer amenities. Existing homes in the area will also be affected by this scenario. As impact fees raise the prices of new homes and apartments, upward pressure is placed on the prices of existing homes and rentals.

To the extent that impact fees raise the price of all homes in a given community, the affordability of housing in that area is reduced. A reduction in housing affordability will have a negative effect on attracting and retaining workers and will have a direct impact on local governments as police officers, firefighters, teachers and other public sector workers are heavily impacted when home prices rise. In addition, the shortage of affordable housing will make it difficult for the community to retain its own sons and daughters as they leave their parents' homes and look for affordable first homes of their own.

One way to illustrate the potential extent of the adverse effect is to apply national mortgage underwriting standards to estimate the households that qualified for a mortgage before a house price increase, but no longer qualify for a mortgage afterwards. Households that no longer qualify for a mortgage following the price increase are referred to as being "priced out" of the market for the home. Applying this approach to the U.S. as a whole reveals that in 2019—utilizing typical assumptions about the mortgage, down payment, property taxes and property insurance, a $726 impact fee would increase the price of a median-priced new home by $1,000,[11] and price out about 127,560 households.[12]

[11] Households Priced-Out by Higher House Prices and Interest Rates, NAHB.

[12] "NAHB Priced-Out Estimates for 2019", Na Zhao, Housing Economics Online, January 2019.

US Households Priced Out of the Market by Increases in House Prices, 2019

Area	Mortgage Rate	House Price	Monthly Mortgage Payment	Taxes and Insurance	Minimum Income Needed	Households That Can Afford House
United States	4.85%	$355,183	$1,831	$447	$97,640	32,679,580
United States	4.85%	$356,183	$1,836	$448	$97,915	32,552,020
Difference		$1,000	$5	$1	$275	-127,560

Calculations assume a 10% down payment and a 73 basis point fee for private mortgage insurance.
A Household Qualifies for a Mortgage if Mortgage Payments, Taxes, and Insurance are 28% of Income

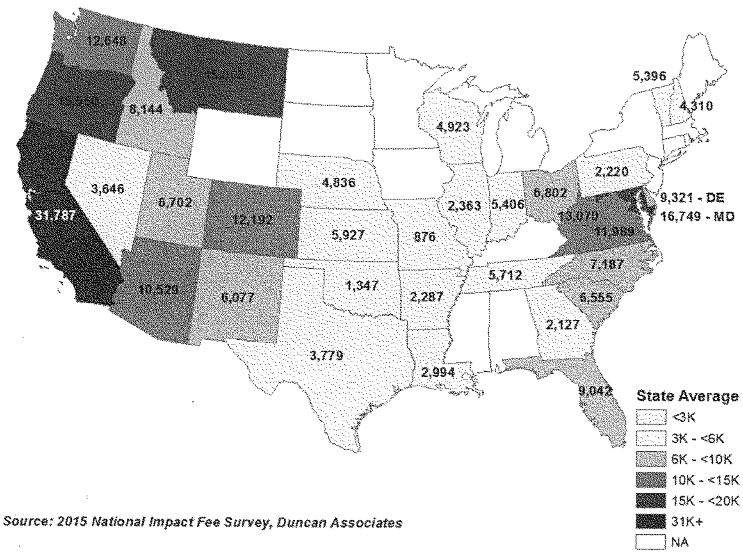
Estimates of the number of households priced out of the market in 2019 by a $726 impact fee (resulting in a $1,000 price increase) ranged from a low of 7 in the Elmira, NY, MSA and 8 in the Walla Walla, WA, MSA, to a high of 4,598 in the Chicago-Naperville-Elgin, IL-IN-WI, MSA. The MSA with second largest number of priced-out households was the Houston-The Woodlands-Sugar Land, TX, MSA, with 3,622 households priced out as the result of the imposition of an impact fee.

Impact fees vary widely across jurisdictions. A national survey of 270 jurisdictions conducted by Duncan Associates in 2015 revealed wide cross-country differences in impact fees that individual jurisdictions charge. The map below presents state averages for standardized single-family units (three-bedroom, 2,000 square-foot units, at a density of 4 units per acre and a value of $200,000). These averages are for communities that actually charge impact fees and include all categories of impacts (utility, schools, roads, parks and so forth).

Jurisdictions in California charge the highest impact fees in the nation by far, on average $31,787 per standardized single-family unit. Maryland and Oregon are a distant second and third with state averages of $16,749 and $15,550, respectively. The map below only reports averages for states represented within the survey.[13]

[13] For more information, see Duncan Associates, National Impact Fee Survey: 2015 (http://impactfees.com/publications%20pdf/2015_survey.pdf).

Average Single-Family Unit Impact Fees, 2015



Source: 2015 National Impact Fee Survey, Duncan Associates

Economic Impact of Housing

The premise underlying the use of impact fees is that development, especially residential development, does not pay for its fair share of the burden imposed upon the local government as new development requires the expansion of public infrastructure as well as the hiring of additional public sector workers. NAHB's research shows this premise is false.

NAHB has estimated the local economic impact for 100 new single-family homes and 100 new rental apartments with average characteristics, including average impact, hook-up and other construction related fees.[14]

The estimated one-year impacts of building 100 average single-family homes in a typical local area include:

- $28.7 million in local income;
- $3.6 million in taxes and other revenue for local governments; and
- 394 local jobs (measured in full-time equivalents).[15]

[14] "The Economic Impact of Home Building in a Typical Local Area: Income, Jobs and Taxes Generated," National Association of Home Builders, April, 2015.
[15] Full-time Equivalent: enough work to keep one worker employed for a year full-time, based on average hours worked in each industry.

The additional, annually recurring impacts of building 100 average single-family homes in a typical local area include:

- $4.1 million in local income;
- $1.0 million in taxes and other revenue for local governments; and
- 69 local jobs.

Similarly, the impacts of building 100 average rental apartments in a typical local area include:

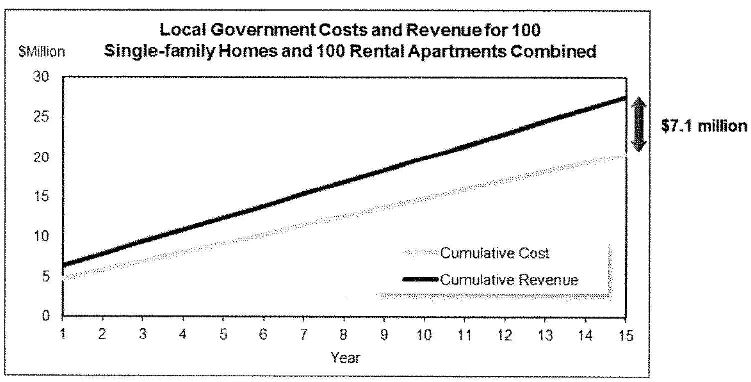
- $11.7 million in local income;
- $2.2 million in taxes and other revenue for local governments; and
- 161 local jobs.

And the ongoing, annually recurring impacts of building 100 average rental apartments include:

- $2.6 million in local income;
- $503,000 in taxes and other revenue for local governments: and
- 44 local jobs.

A companion NAHB study estimated the cost of building the necessary infrastructure and providing local government services to these new homes and compared the cost to the revenue generated.[16]

Results show that, given average existing fees and taxes, the new homes generate enough revenue for local governments to cover current expenses, and to service and pay off all debt incurred to invest in public structures within one year. Cumulatively, after 15 years, the homes generate a cumulative $27.6 million in revenue for local governments compared to $20.5 million in costs (including annual current expenses, capital investment, and interest on debt).



[16]The Economic Impact of Home Building in a Typical Local Area: Comparing Cost to Revenue for Local Government," National Association of Home Builders, April, 2015.

NAHB has a number of publically available resources to demonstrate the benefits housing provides to local communities and the nation. NAHB's webpage, Housing's Economic Impact, includes "Priced-Out" estimates, information about housing's contribution to the Gross Domestic Product (GDP) and the impact of homebuilding and remodeling on the U.S. Economy. The webpage also links to The Local Economic Impact of Home Building, where one can find estimates of the jobs, income and taxes generated from typical single-family and multifamily housing projects and compare them to governments' costs of extending services to the new homes.

Possible Steps to Improve Affordability

There is no single solution to address housing affordability. Addressing labor shortages in the construction industry and ensuring continued liquidity in the secondary mortgage market through comprehensive housing finance reform must be part of any comprehensive affordable housing strategy. Also, it is important to remember that different market segments may require different tools for improving affordability, from direct or indirect subsidies at the low end of the income bracket, to better planning for housing and regulatory barrier removal strategies at the upper end of the income range.

NAHB urges federal policymakers to adopt sensible workforce development and immigration policies that will help our industry fill open jobs and fund federal housing programs. Simply put, the skilled labor workforce is aging, and not enough new workers are entering the trades. The result of this dynamic is a chronic labor shortage in the home building industry. NAHB has pledged to educate and train 50,000 new workers over the next five years for careers in the construction trades. NAHB's Home Builders Institute (HBI), our workforce development arm, offers youth and adult training programs across the country to provide students with the hands-on experience necessary to build careers in construction and related fields. HBI will expand training, certification and job placement programs for underserved and at-risk youth, transitioning military, veterans, ex-offenders and displaced workers.

An essential component of any strategy for housing affordability must be advancing comprehensive housing finance reform. To NAHB, this means effective reform of the conventional mortgage finance market, including Fannie Mae and Freddie Mac (the Enterprises), private capital sources and federal mortgage finance programs, in particular those of the U.S. Department of Housing and Urban Development (HUD), most involving the Federal Housing Administration (FHA), the U.S. Department of Agriculture's Rural Housing Service (RHS) and the U.S. Department of Veterans Affairs' (VA) Home Loan Guaranty Program. Comprehensive housing finance reform will ensure the capital and liquidity necessary for housing developers, builders, lenders and consumers to access stable financing. The critical consideration in a new system is broad and continued liquidity during all economic cycles and for all geographic areas. Additionally, we support an enhanced role for state and local housing finance agencies. These organizations play an important role in meeting affordable housing needs and NAHB believes they hold great potential to augment a reformed housing finance system.

NAHB believes comprehensive reform must come through Congress and focus on fixing the structural flaws that persist ten years after the great recession. Comprehensive legislation, including a determination of the future of Fannie Mae and Freddie Mac, is the only way to ensure a stable housing finance system, preserve access to credit and protect taxpayers.

Regulatory reform is important because it will help improve housing affordability by lowering development costs. It is not, however, a substitute for a direct subsidy. To reach lower-income households, it is financially infeasible to construct new, unsubsidized affordable rental units without federal assistance.

Each federal housing program serves an important purpose. They are not interchangeable, but complementary. Different strategies are necessary to meet the housing needs of households with different income levels and in different parts of America. The array of federal government programs that have been developed over the years in response to identified needs are essential elements in ensuring that there are affordable options for providing housing. NAHB strongly urges that Congress continue to support successful housing programs such as the Low Income Housing Tax Credit (LIHTC), and full funding for vital rental housing programs such as the Housing Choice Voucher Program, Project-Based Section 8 Rental Assistance, the HOME Program, the Community Development Block Grant (CDBG) and the Rural Development Multifamily Programs.

Decision making about land use should remain at the local level, but the federal government can play a valuable partnership role. Addressing housing affordability will require a sustained long-term effort as well as strong public-private partnerships that engage both for-profit and non-profit builder / developers on a level playing field. NAHB urges federal policy makers to encourage and coordinate with, and not prescribe to, local communities to adopt long-term strategies that will meet the demand for new housing and economic development. Incentives are needed to encourage municipalities to expedite the permit approval process and to reduce or eliminate impact fees and other added costs that reduce housing affordability.

"Housing Is Infrastructure Act of 2019"

NAHB applauds Chairwoman Waters for starting an important discussion on the role that additional costs, such as fees associated with infrastructure, play in housing affordability. The legislation, "Housing Is Infrastructure Act of 2019," is a positive starting point. NAHB supports increased funding for important affordable housing programs, such as rural housing programs and the Housing Trust Fund. The incentives proposed in section 4 to ensure lowered impact fees and streamlining of the development process are worth discussing as part of an effort to ensure that we address the unmet demand for low-income rental housing.

The growing demand for low-income housing is accompanied by ongoing challenges to supply the inventory needed to improve housing affordability for workforce middle-class residents. Rising rents and low vacancy rates, particularly in high cost markets with robust job creation, require additional supply. NAHB has long-supported federal housing programs that assist low-income cost-burdened families.

Most federal rental assistance programs are targeted to families earning no more than 50 percent of Area Median Income (AMI) or the higher of the Federal Poverty level or 30 percent of AMI. NAHB commends the Chairwoman for allowing qualified affordable housing assisted by the new Community Development Block Grant competitive grants authorized in the bill to serve families earning up to 80 percent of AMI. We would also encourage consideration of expanding the income limit to 120 percent of AMI to ensure that more moderate-income families can be included.

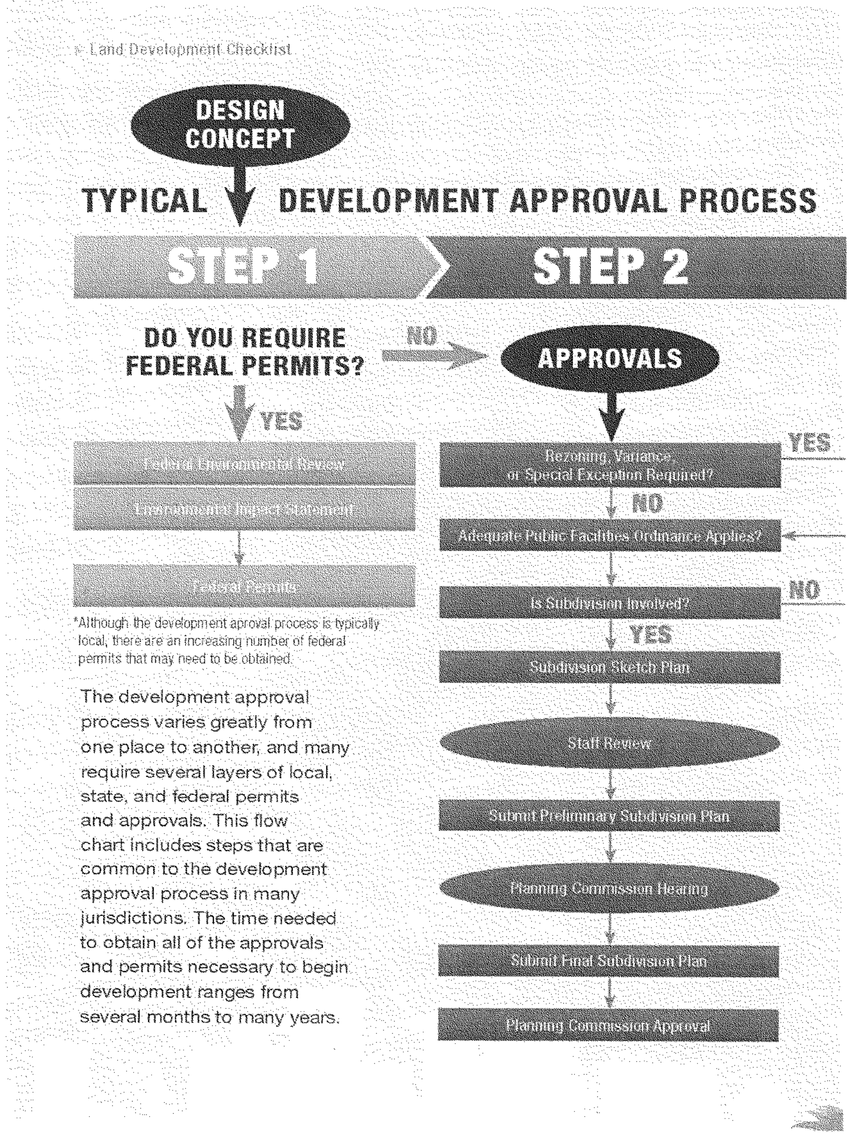
Unfortunately, many families that earn between 60 percent and 120 percent of AMI are also struggling with housing costs. This group includes our teachers, military service members and first responders. Their incomes may be too high to receive assistance, but they are nevertheless affected by the low supply of affordable housing. It is essential that we work to ensure that by protecting low-income developments, we aren't unintentionally passing on unintended consequences to middle-income households.

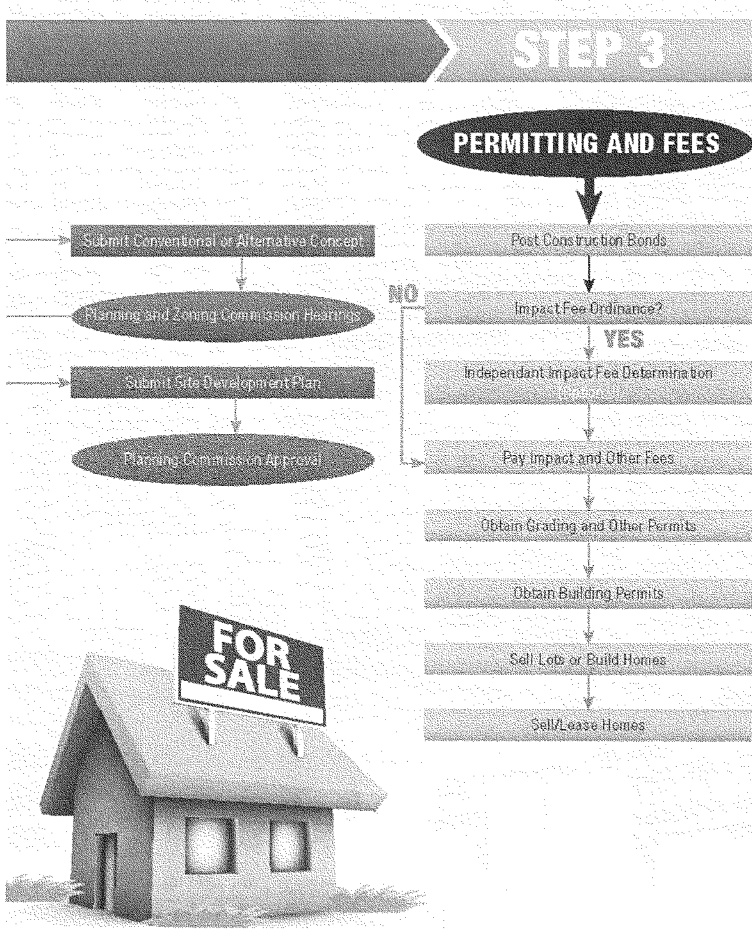
NAHB is interested in working with Chairwoman Waters to ensure the incentives for grantees under the new CDBG competitive grant program are structured so that grantees do not increase impact fees on market rate housing developments to offset reductions for the qualified affordable projects. We applaud the work to lower development costs for low-income housing, and look forward to working with your office on these efforts.

Conclusion

Whether they rent or own, Americans want to choose where they live and the type of home that best meets their needs. Thank you, Chairwoman Waters for convening this important hearing to explore strategies for removing barriers to affordable housing development. NAHB stands ready to work with you to achieve thoughtful, effective policies to expand the availability of affordable housing.

Appendix


Land Development Checklist
DESIGN CONCEPT
TYPICAL DEVELOPMENT APPROVAL PROCESS
STEP 1
STEP 2
DO YOU REQUIRE FEDERAL PERMITS?
NO
YES
Federal Environmental Review
Environmental Impact Statement
Federal Permits
*Although the development aproval process is typically local, there are an increasing number of federal permits that may need to be obtained.
The development approval process varies greatly from one place to another, and many require several layers of local, state, and federal permits and approvals. This flow chart includes steps that are common to the development approval process in many jurisdictions. The time needed to obtain all of the approvals and permits necessary to begin development ranges from several months to many years.
APPROVALS
Rezoning, Variance, or Special Exception Required?
YES
NO
Adequate Public Facilities Ordinance Applies?
Is Subdivision Involved?
NO
YES
Subdivision Sketch Plan
Staff Review
Submit Preliminary Subdivision Plan
Planning Commission Hearing
Submit Final Subdivision Plan
Planning Commission Approval


STEP 3
PERMITTING AND FEES
Submit Conventional or Alternative Concept
Planning and Zoning Commission Hearings
Submit Site Development Plan
Planning Commission Approval
Post Construction Bonds
NO
Impact Fee Ordinance?
YES
Independant Impact Fee Determination
Pay Impact and Other Fees
Obtain Grading and Other Permits
Obtain Building Permits
Sell Lots or Build Homes
Sell/Lease Homes
FOR SALE

NAHRO
building communities together

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Testimony by
Adrianne Todman
Chief Executive Officer
National Association of Housing and Redevelopment Officials

U.S. House of Representatives
Committee on Financial Services

"Housing in America: Assessing the Infrastructure Needs of America's Housing Stock"

April 30, 2019

Good morning, Chairwoman Waters, Ranking Member McHenry and Members of the Committee on Financial Services. My name is Adrianne Todman, and I am the CEO of the National Association of Housing and Redevelopment Officials (NAHRO). Thank you for inviting me to testify today on the important topic of assessing the infrastructure needs of America's housing stock.

Last year, NAHRO celebrated its 85th anniversary as a membership organization for the affordable housing and community development industry. In 1933, the founders of NAHRO created the association to address their common concern for the nation's housing needs. That remains our charge today. Our membership consists of more than 70 percent of the agencies that administer the public housing, Housing Choice Voucher, and the Project-Based Rental Assistance programs across the country. Our members build and maintain homes for almost 8 million people across the country in urban, rural, and suburban America. NAHRO members also administer the HOME and CDBG resources provided by HUD, which not only go towards the creation of new affordable housing, but also, in the case of CDBG, serve as a down-payment in community amenities that support the vitality and livability of neighborhoods.

Many of you may have spoken with NAHRO members a few weeks ago, while they were here for our Washington Conference. Hundreds of housers and community builders travelled from all across the nation to talk with you about our legislative priorities: keeping government open, fully funding affordable housing and community development programs, preserving the nation's housing stock, creating local, community-based solutions and supporting efficient program operations. I am sure many of them also expressed their gratitude for this Committee's support of

e-mail: nahro@nahro.org website: www.nahro.org

their funding and operational issues. I would like to echo their thanks for the work you do in helping to increase and preserve our vital affordable housing stock.

Families Served and Existing Needs
America's public housing is an integral component of our nation's infrastructure. It is home to almost 1 million families, including more than 360,000 families with children and more than 315,000 senior households[1]. Twenty-two percent of households include persons with disabilities - that figure rises to 51 percent when we consider only households headed by persons of age 62 years or older.

The need for affordable housing is only increasing. HUD's 2017 *Worst-Case Housing Needs Report* states that "[d]espite continued signs of a strengthening national economy, the report finds that severe housing problems are on the rise. In 2015, 8.30 million households had worst case needs, up from 7.72 million in 2013 and approaching the record high of 8.48 million in 2011." Vulnerable populations such as seniors are also particularly affected. As the Harvard Joint Center for Housing Studies noted in 2018, "the number of cost-burdened older adult households reached a high of 9.7 million in 2016, up from 6.5 million in 2001. This new peak includes 4.9 million severely cost-burdened households (those spending over half of their income on housing)."

We owe it to the families, children, and seniors currently housed; to our homeless neighbors throughout the country; and to the millions of households who experience housing affordability issues to preserve this inventory of housing as part of this country's valuable infrastructure.

How Did We Get Here?
Created in the 1930s, the public housing program was the first major federal rental housing program. And while the program was federally created and funded, the properties are owned and managed by local public housing authorities, which were created by states. This unique federal-state-local arrangement is codified in the Housing Act of 1937, as amended throughout the years, and administered via an Annual Contributions Contract, an historically bilateral relationship that lays out the roles of the federal and local government.

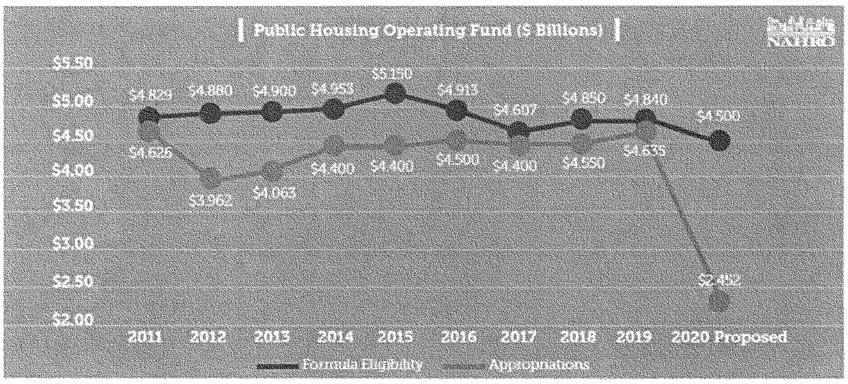
Over the years, and as the public housing program rules changed, the rents of the families who lived in public housing could no longer sustain the operating costs of the units. Congress then authorized the provision of operating assistance. But, unfortunately, the residents' rental income, and the level of the operating assistance and capital fund would not be enough to both sustain the operational needs of the units and remedy major deficiencies. Public housing units throughout the country began to fall into disrepair. In the late 1980s, Congress then established the Commission on Severely Distressed Public Housing, which made a number of recommendations as to the social service needs of residents and the capital needs of the asset itself. One outgrowth of that report was the highly competitive HOPE VI program, which focused on the most distressed units in the country.

Unfortunately, the funding needed to address the capital needs of this important housing portfolio has truly never been fully realized. In fact, appropriations for both the operating fund and the capital fund have been substantially reduced.

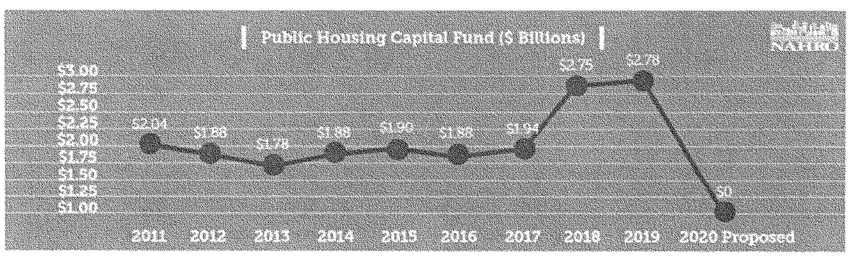
We are now bearing witness to the consequences of these decisions.

[1] HUD's *Picture of Subsidized Households* 2018.

There are some residents in aging units who face increasingly unhealthy and unsafe conditions due to a mounting capital needs backlog. Capital Fund appropriations, which provide funding for the rehabilitation and modernization of public housing units, lag dangerously behind accruing modernization needs. At the same time, funding for operations – through the Operating Fund – has endured deep cuts, forcing housing agencies to forgo critical maintenance functions and thus further jeopardizing the long-term sustainability of many properties.



The Capital Fund is provided annually to public housing agencies (PHAs) for the development, financing, and modernization of public housing developments.



PHAs use this money to repair and improve their public housing sites and buildings, address deferred maintenance needs, and replace obsolete utility systems. For instance, the Housing Alliance and Community Partnerships, formerly the Housing Authority of the City of Pocatello, in Idaho, has 72 public housing units. Their public housing residents are all elderly and disabled and are on fixed incomes, which in turn results in fixed rents that average approximately $186/month. HACP will be using the entirety of this year's Capital Fund allocation to replace an elevator. When asked what they would do with double the allocation, they replied that they'd replace the other elevator, and look into replacing windows and equipment in the building's laundry room.

The Seattle Housing Authority uses its Capital Funds to preserve existing housing stock, which includes rehabilitating major building systems in existing public housing high-rise buildings; replacing major building components such as roofs, exterior siding, and windows; upgrading unit interiors; and providing improvements such as community rooms.

The Bayonne Housing Authority in New Jersey plans to replace roofs, upgrade elevators and security cameras, repair their sidewalks and curbs, make electrical upgrades, and install underground steam and water line replacements. Two small agencies in Kansas will be replacing and upgrading their HVAC systems. The Milford Housing and Redevelopment Partnership in Connecticut is using two years' worth of Capital Funds to remove asbestos tiles and mastic and to replace the flooring in 50 homes.

In 2009, the American Reinvestment and Recovery Act (ARRA) included $4 billion in public housing capital funds: $3 billion was allocated through the capital fund formula and dispersed to n 3,000 PHAs in March 2009, and $1 billion was allocated through a competitive grant process for green retrofits and new green construction, and dispersed beginning in September 2009. A 2010 report[2] notes that "PHAs spent the money quickly...despite additional reporting requirements and regulations regarding the use of the funds. They created thousands of jobs, brought thousands of new or rehabbed units online and leveraged billions more in additional funds."

Unfortunately, after this one-time injection, allocations were significantly reduced. While we are *very* grateful for the increased appropriations made in FY 2018 and FY 2019, the current appropriations levels are not keeping up with the accruing capital needs. Extrapolating from HUD's 2010 Capital Needs Assessment, we join our sister association, the Public Housing Authorities Directors Association (PHADA) in estimating that the capital needs backlog to be upwards of $70 billion, even after considering the impact of programs like Choice Neighborhoods and the Rental Assistance Demonstration[3].

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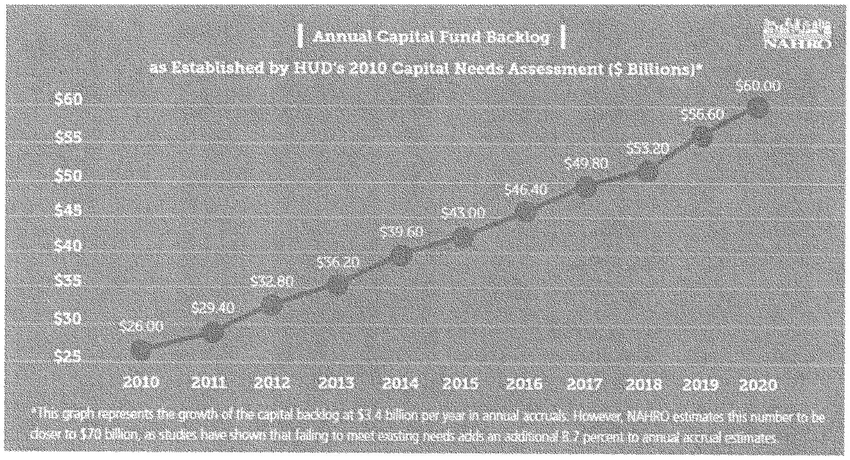
[2] *Public Housing Stimulus Funding: A Report on the Economic Impact of Recovery Act Capital Improvements*, 2010.

[3] PHAs have been able to reduce this backlog by leveraging $5 billion through the Rental Assistance Demonstration. Furthermore, PHAs have received $487.425 million in Choice Neighborhood Implementation Grants and have leveraged $1.288 billion specifically for housing rehabilitation and new construction through those grants since 2010. Accounting for this $6.775 billion in grants and leveraged funding for capital needs through RAD and Choice Neighborhoods, the capital needs backlog is $69.377 billion. Though programs such as demolition and disposition and voluntary conversion have made it easier for public housing authorities to reposition their public housing and leverage additional funds to address capital needs, these were not workable programs until last year, and have not yet had a significant impact on the backlog.



We applaud the inclusion of $70 billion in this bill for public housing capital repairs. This much-needed funding will help PHAs make critical repairs and ensure that their public housing units, which are a large and vital part of our housing infrastructure, are safe, decent, and sustainable.

Investing in Public Housing Is an Investment in Small Businesses

Public housing is not just infrastructure, but also an economic engine. A study estimates that the lack of safe and accessible affordable housing in major metropolitan areas costs us approximately $1.6 trillion a year in lower wages and lost productivity[4]. Further, every $1 spent on public housing produces an additional $2.12 in indirect economic activity. Thus, a $70 billion infusion would result in $218.4 billion in total economic activity.

Industry Tools for Preserving the Portfolio

The Capital Fund is a critical tool in preserving public housing units. Given that federal funding has not kept pace with the need for local housing agencies to repair units, they have relied on a number of other programs, many of which leveraged private funding.

Since the beginning of its participation in the Moving to Work demonstration program (MTW), the Cambridge Housing Authority (CHA) in Massachusetts has used MTW funding flexibility to support the capital needs of its public housing units. In 2001, a capital needs assessment estimated that CHA would need $69 million for repair and construction costs. With annual capital funding of approximately $3.5 million, it would have taken the PHA 20 years to meet existing maintenance and modernization needs. CHA used MTW single-fund flexibility to dedicate funds above what it received in capital funding. Between 1999 and 2005, CHA spent $9 million from its MTW block grant toward modernization and extraordinary maintenance. Although reduced operating subsidies over the next few years required CHA to limit the amount of MTW funding spent on maintenance, CHA ultimately spent a total of $50 million in MTW funding on capital needs between 1999 and 2014, maintaining the quality of all of its public housing units.

[4] *Housing Constraints and Spatial Misallocation*, updated 2018.

The Rental Assistance Demonstration (RAD) program has been a critical tool to help recapitalize the public housing infrastructure backlog. While the additional public housing financing included in this bill is absolutely necessary, the RAD program should remain an option for those PHAs that still want a tool to convert their public housing to the Section 8 platform. The current iteration of the RAD program ensures that there are protections in place that safeguard the affordable housing character of properties and have strong tenant protections. According to HUD, over 110,000 units have been converted with a 19 to 1 leveraging ratio.

The Grand Rapids Housing Commission in Michigan used several of these funding streams and tools to redevelop Creston Plaza, a severely distressed 100-unit low-income public housing development that was built on a flood-prone site. Their participation in the RAD program gave them the leverage to obtain $2.4 million in LIHTC and attract $19.5 million in private investment; they filled funding gaps with Capital and Operating Fund money and mortgage loans obtained through Fannie Mae. With these funds, they stabilized and adapted the site terrain for new construction, and the redeveloped facility now serves families, senior citizens, and persons with disabilities.

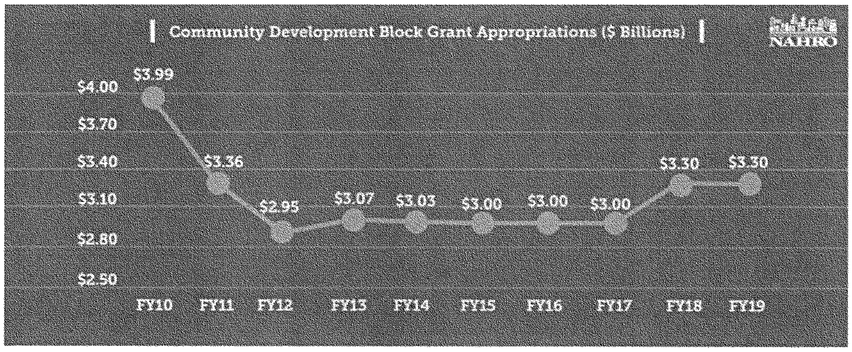
The Portsmouth Redevelopment and Housing Authority of Virginia used a variety of tools - capital funds, the Low Income Housing Tax Credit (LIHTC), and Community Development Block Grant (CDBG) funds to develop Westbury Cottages, 16 one-bedroom units in eight duplex buildings that serve a minimum of 50 percent supportive housing to reduce the homeless population. This project would not have been possible without several other tools that PHAs use to build and maintain some of our precious affordable housing infrastructure.

Low-Income Housing Tax Credit
Virtually no affordable rental housing development would occur without LIHTC; it is a vital financing component for many of the federal, state, and local affordable housing programs used by NAHRO members. The LIHTC has been a critical source of equity for more than 3 million affordable housing units over the last 30 years, providing affordable homes to 7.2 million low-income families and supporting 3.25 million jobs. This is why we join our colleagues in the ACTION Campaign in supporting the reintroduction of the Affordable Tax Credit Reinforcement Act (H.R. 1661) that was introduced in the 115th Congress. Like them, we also support the inclusion of a 50 percent phased-in increase in each state's LIHTC ceiling, which would allow PHAs and other entities to finance both the production of new rental homes and the rehabilitation of existing properties that need repairs.

Opportunity Zones
Established by the Tax Cuts and Jobs Act of 2017, the Opportunity Zone Program provides tax incentives for investors to re-invest unrealized capital gains into Opportunity Funds. Opportunity Funds are private-sector investment vehicles that invest at least 90 percent of their capital in Opportunity Zones. This new program has the potential to be an important, viable tool for housing and community development agencies.

National Housing Trust Fund
Another important funding mechanism for producing and preserving affordable housing is the National Housing Trust Fund (NHTF). Congress implemented the NHTF with the purpose of generating a dedicated funding source allocated to states for affordable housing preservation and production. Additional capitalization of the NHTF will help alleviate the deep need for affordable housing targeted to extremely low-income households.

Community Development Block Grant



CDBG funding is critical to every state, and to the many localities that use it to revitalize their neighborhoods and support vulnerable populations such as the elderly, persons experiencing homelessness, domestic violence survivors, persons with disabilities, youth, and veterans. We very much appreciate the inclusion of $10 billion of new CDBG funding in this bill. We certainly understand that the proposed competition is intended to incentivize localities to reduce barriers to the creation of affordable housing. We ask, though, that consideration be given to ensure that smaller communities, rural communities, and Indian tribes have a fair opportunity to access these funds. This concern can be resolved by instituting assurances that small and/or rural communities and Indian tribes will have access to the funds.

Why HOME Matters

We would also like to highlight one of the most important federal tools NAHRO members use to preserve and produce affordable housing, which is absent from this proposed legislation: the HOME Investment Partnerships program. For more than 20 years, HOME has empowered more than 600 states and localities to design and implement affordable housing strategies in response to locally determined need. HOME has created more than 1.3 million affordable homes and provided direct rental assistance to more than 356,000 families. It has created and preserved housing for low-income families in every state, territory and congressional district in the country. HOME funds can be used for new construction, housing rehabilitation, down payment assistance to creditworthy homebuyers, and tenant-based rental assistance.

HOME benefits those most in need by supporting low-income households, particularly people with disabilities, veterans, families with children, and people experiencing homelessness. It is a vital federal housing program that allows communities to leverage $4.38 of public and private dollars for every HOME dollar invested. The HOME Coalition estimates that the program has supported more than 1.75 million jobs and generated $115 billion in local income.

Given the needs that the HOME program serves, we encourage you to consider adding $5 billion in HOME funding to this bill.

Support Rural Housing

The health of our national housing infrastructure also requires investments in the production of new affordable rental homes in rural communities and on tribal lands. The USDA Section 515

Rural Rental Housing Program provides direct loans from USDA to private and nonprofit organizations to build affordable multifamily rental housing in rural areas. Infrastructure investments, including rural broadband, would have significant impacts on low-income rural Americans.

Housing Needs in Indian Country
The Indian Housing Block Grant (IHBG) and the Indian Community Development Block Grant (ICDBG) are also critical to ensure adequate maintenance and development of safe, sanitary and affordable housing on tribal lands. We had the pleasure of hearing from the National American Indian Housing Council (NAIHC) during our recent Washington Conference and learned the impact of the IHBG and ICDBG programs. The HUD needs assessment of tribal communities from 2017 found a need of 68,000 new units across Indian Country. Per the leadership of NAIHC, the $1 billion in this bill under the Native American Housing Block Grant would be a great jump start to addressing this need. The funds would allow tribes to focus on new development and acquisition of new affordable housing units, as current appropriations are largely used for maintenance of existing units.

Disaster Preparedness
In order to prepare for the effects of disasters on our housing infrastructure, we need to have both a firm plan to ensure resilience, as well as a path back for when our housing is damaged and destroyed. We are pleased to see that this proposed legislation acknowledges the role that natural disasters play in interrupting housing affordability in communities across the country. Including pre-disaster mitigation funds in this bill will allow local communities and PHAs to proactively prepare their properties and their residents to withstand a disaster. These resiliency efforts will show maximum benefit during a disaster by providing safe and durable homes to those affected and by minimizing the post-disaster cost, time, and effort to repair and restore the local community.

Why Invest in America's Housing
Investing in affordable housing, particularly the public housing portfolio, is an investment in people, and a cost-saving mechanism that prevents additional expenditures downstream. We turned to Urban Institute's online portal "How Housing Matters" and learned that a 2016 study[5] found that living in subsidized housing as a teen was positively associated with adult earnings. The research also found that subsidized housing was associated with reduced likelihood of incarceration. Research has also shown that it is less costly to house chronically homeless people than to leave them on the streets. A 2016 study[6] of Albuquerque's Heading Home initiative found that, over a two- to three-year period, the program created about $5 million in total savings (about $14,700 per participant) – a cost-savings return of about $1.78 for every program dollar spent. A 2015 study[7] found that older adults who were able to access housing after experiencing homelessness had lower rates of emergency department visits and overnight hospitalization than those who remained homeless.

Thank you for the opportunity to testify about this vital issue. I look forward to answering your questions.

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[5] *Childhood Housing and Adult Earnings: A Between-Siblings Analysis of Housing Vouchers and Public Housing*, 2016, revised in September 2018.
[6] *City of Albuquerque Heading Home Initiative Cost Study Report Final*, 2016.
[7] *Health Outcomes of Obtaining Housing Among Older Adults*, 2015.

Testimony of Diane Yentel, President and CEO
National Low Income Housing Coalition
presented to the Financial Services Committee
United States House of Representatives
April 30, 2019

Chairwoman Waters, Ranking Member McHenry, and members of the Committee, thank you for the opportunity to testify before you today on ways to alleviate the affordable housing crisis by making targeted investments in a comprehensive infrastructure package.

On behalf of the National Low Income Housing Coalition, I commend Chairwoman Waters for her leadership in introducing the "Housing is Infrastructure Act of 2019" to invest billions of dollars to repair America's public housing infrastructure, construct and preserve apartments affordable to those with the greatest needs, and create incentives for local governments to streamline their development processes to increase the supply of affordable homes. The scale and scope of these investments are badly needed and long-overdue.

The National Low Income Housing Coalition (NLIHC) is solely dedicated to ensuring the lowest income seniors, people with disabilities, families with young children and others in our country have safe, accessible and affordable homes. Our members include non-profit housing providers, homeless services providers, fair housing organizations, state and local housing coalitions, public housing agencies, faith-based organizations, residents of public and assisted housing and their organizations, low-income people in need of affordable homes, and other concerned citizens. NLIHC does not represent any sector of the housing field. Rather, we work with and on behalf of low-income people who need safe, accessible and affordable homes. NLIHC is entirely funded by private donations.

With a comprehensive infrastructure package, Congress should address one of the most critical issues facing extremely low-income families today: the severe shortage of decent, accessible, and affordable homes. Today, nearly 8 million of our nation's lowest-income households live in housing poverty, spending more than half of their limited incomes on housing and having too little left for other basic needs. An additional half million people experience homelessness on any given night. Just one in four eligible households gets the assistance they need to afford a place to call home. With increased investments in proven solutions, we can end homelessness and housing poverty once and for all.

In my testimony today, I will discuss: our country's severe shortage of homes affordable to the lowest-income people; the opportunity to invest in this critical infrastructure through an expansion of the national Housing Trust Fund (HTF), public housing capital fund, and rural and tribal housing programs; and the many benefits of doing so.

I. <u>The Need for Deeply Affordable Housing</u>

Our country is in the grips of a pervasive affordable housing crisis, impacting rural, suburban and urban communities alike. While the crisis has many dimensions, the fundamental problem is the mismatch between what people earn or otherwise have available to spend for their homes and what housing costs. Rents have risen much faster than renters' incomes over the last two decades[1], and while more low-income people are renting their homes than ever before, the

[1] Joint Center for Housing Studies of Harvard University. 2018. *The State of the Nation's Housing*. Cambridge, MA: Author.

supply of affordable housing and rental assistance has not kept pace.[2] As a result, record-breaking numbers of households cannot afford a decent place to live.

The shortage of affordable homes is most severe for extremely low-income (ELI) households whose incomes are at or below the poverty guideline or 30% of their area's median income (AMI), whichever is higher. In Los Angeles, an ELI renter could be a family of four with two working parents who earn a combined $29,050 annually, a low-income senior with an income of no more than $20,350, or a single person with a disability relying on an annual income of just over $10,000 from Supplemental Security Income (SSI). In Rutherford County, North Carolina, an ELI renter could be a family of four with two working parents who earn a combined $25,100 annually, a low-income senior with an income of no more than $12,140, or a single person with a disability relying on an annual income of under $10,000 from SSI.

Only 7 million affordable rental homes exist for the nation's 11 million lowest-income renter households, assuming they spend no more than 30% of their income on housing costs.[3] Not all these 7 million homes, however, are available to the lowest income renters. Nearly 3.5 million of them are instead occupied by higher-income households. As a result, only four million affordable and available rental homes exist for 11 million of the lowest-income renter households. In other words, for every 10 of the lowest income seniors, people with disabilities, families with children, veterans and others, there are fewer than four affordable homes available to them.[4]

The shortage of affordable and available homes for the lowest income renters ranges from most severe to least severe, but there is no state or congressional district with enough homes for its lowest-income renters[5]. For example, in California's 43rd district, represented by Chairwoman Waters, there are fewer than two affordable homes available for every 10 of the lowest-income renter households.[6] In North Carolina's 10th district, represented by Ranking Member McHenry, and in Missouri's 1st District, represented by Housing Subcommittee Chairman Clay, there are just three affordable homes available for every 10 of the lowest-income renter households.[7] In Wisconsin's 7th District, represented by Housing Subcommittee Ranking Member Duffy, there are four affordable homes available for every 10 of the lowest-income renters.[8]

NLIHC's *The Gap: A Shortage of Affordable Homes* report shows there is a shortage of affordable and available homes for households with incomes at 30% of AMI (ELI households), 50% of AMI, and 80% of AMI (Figure 1).

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[2] Ibid.

[3] According to HUD, households spending more than 30% of income for these housing costs are considered to be "cost-burdened." Households spending more than 50% are considered to be "severely cost-burdened."

[4] National Low Income Housing Coalition. 2019. *The Gap: A Shortage of Affordable Homes*. Washington, DC: Author. See: https://nlihc.org/gap

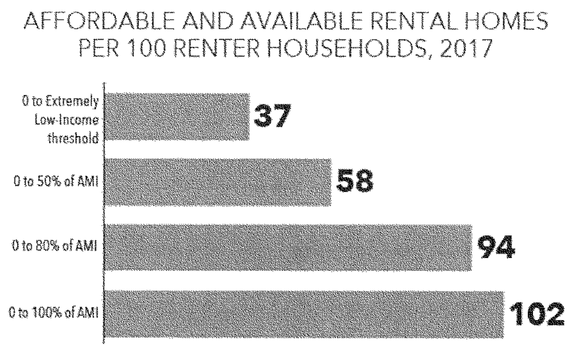
[5] U.S. Department of Housing and Urban Development. 2019. CHAS Data, 2011-2015 [data file].

[6] National Low Income Housing Coalition. 2019. *Congressional District Housing Profiles: California*. Washington, DC: Author.

[7] National Low Income Housing Coalition. 2019. *Congressional District Housing Profiles: North Carolina and Missouri*. Washington, DC: Author.

[8] National Low Income Housing Coalition. 2019. *Congressional District Housing Profiles: Wisconsin*. Washington, DC: Author.

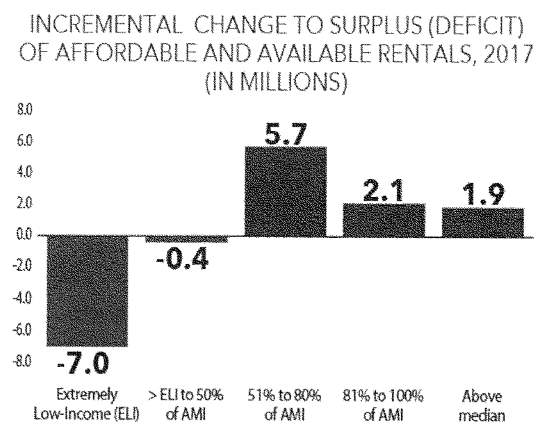
Figure 1



Source: NLIHC tabulations of 2017 ACS PUMS data. AMI = Area Median Income

The Gap report also shows, however, that the lack of homes affordable and available to households with incomes above 30% of AMI is driven by the insufficient supply of homes for the lowest-income households. Figure 2 (below) shows the incremental change in the shortage or surplus of rental homes available and affordable to households of different incomes. The shortfall of 7 million homes available and affordable to ELI households accounts for virtually the entire shortage of affordable homes in the U.S. In areas where very low-income and low-income households have difficulty with housing affordability, it is principally due to extremely low-income households having to rent homes they cannot afford, spending 50%, 60%, 70% or more of their incomes on their housing and competing with higher-income families for that limited housing.

Figure 2



Because of the shortage of affordable and available homes, 11 million renter households are severely housing cost-burdened, paying more than half of their incomes towards housing. Almost eight million, or nearly three-quarters of these households, are extremely low-income.[9] Severe housing cost burdens can have negative consequences for families' physical and mental well-being.

Severely housing cost-burdened families spend 75% less on healthcare and 40% less on food than similarly poor households who are not severely cost-burdened; and poor seniors who are severely cost-burdened spend 62% less on healthcare.[10] These households forgo healthy food or delay healthcare or medications to pay the rent. In the worst cases, they become homeless.

Housing cost burdens make it more difficult for poor households to accumulate emergency savings. Without emergency savings, unexpected costs (such as car repairs, medical bills, etc.) or loss of income (such as reduced work hours) can cause households to fall behind on rent and face eviction. Data from the 2013 American Housing Survey (AHS) show that households in poverty with severe housing cost burdens are more likely to fall behind on rent payments and be threatened with eviction than poor households that are not severely cost-burdened.

Housing instability causes significant disruptions in critical services and economic stability. The lack of stable housing, for example, can disrupt the care given to chronically ill individuals, interrupt student learning, and decrease academic achievement.[11] Housing instability can also undermine economic stability by disrupting employment. The likelihood of job loss increases for working low-wage renters who lose their homes (primarily through eviction),[12] indicating that affordable housing and housing subsidies are foundational to employment and economic security.

The majority (87%) of all severely cost-burdened and deeply poor households are seniors, people with disabilities, or individuals in the labor force. Many others are enrolled in school or are single adults caring for a child or a person with a disability (see Figure 3).[13] With more than half of their limited incomes going to keep roofs over their heads, these families are forced to make impossible choices between paying rent and buying groceries, seeing a doctor, or saving for college or an emergency.

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[9] National Low Income Housing Coalition. 2019. *The Gap: A Shortage of Affordable Homes.* Washington, DC: Author.

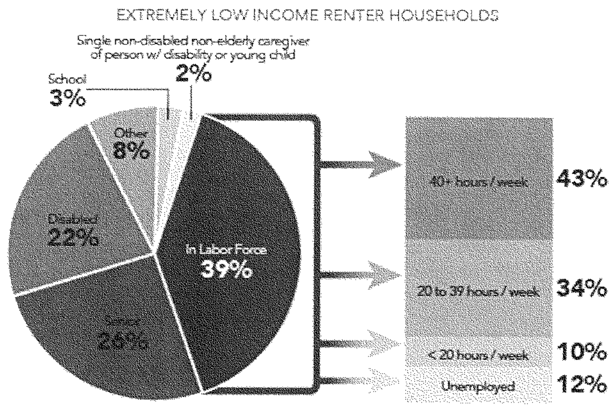
[10] Joint Center for Housing Studies of Harvard University. 2017. *The State of the Nation's Housing*. Cambridge, MA: Author.

[11] Maqbool, N., Viveiros, J., & Ault, M. 2015. *The Impacts of Affordable Housing on Health.* Washington, DC: National Housing Conference; Brennan, M., Reed, P., & Sturtevant, L. 2014. *The Impacts of Affordable Housing on Education.* Washington, DC: National Housing Conference.

[12] Desmond, M. & Gershenson, C. 2016. *Housing and Employment Instability among the Working Poor. Social Problems*, 63(1): 46-67.

[13] Ibid.

Figure 3[14]



NLIHC's Out of Reach: The High Cost of Housing report shows the difference between wages and the price of rental housing in every state, county, metropolitan area, and metro-area ZIP code by estimating each locality's "housing wage," the hourly wage a full-time worker needs to earn to afford a modest apartment. In 2018, the national housing wage was $22.10 per hour for a two-bedroom apartment and $17.90 for a one-bedroom rental. A worker earning the federal minimum wage would have to work 122 hours per week – or three full-time jobs – to afford a two-bedroom apartment, or 99 hours per week – almost 2.5 full-time jobs – to afford a one-bedroom apartment at fair market rent. While the housing wage varies from state to state and county to county, there is no jurisdiction in the United States where a full-time worker earning the prevailing minimum wage can afford a modest two-bedroom apartment at the fair market rent.

It's not just minimum wage workers for whom rents are out of reach: the average renter in the U.S. earns approximately $17 per hour, more than $5 per hour less than the national two-bedroom housing wage. A full-time worker earning the average renter's wage can afford to rent a modest two-bedroom apartment at the fair market rent in just 11% of U.S. counties, and he or she can afford to rent a modest one-bedroom apartment in fewer than half of all U.S. counties.[15]

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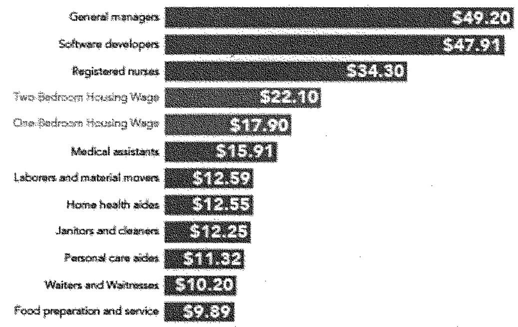
[14] Note: Mutually exclusive categories applied in the following order: senior, disabled, in labor force, enrolled in school, single-adult caregiver, and other. Senior means householder or householder's spouse (if applicable) is at least 62 years of age. Disabled means householder and householder's spouse (if applicable) are younger than 62 and at least one of them has a disability. Unemployed means household and householder's spouse (if applicable) are younger than 62 and unemployed. Working hours is usual number of hours worked by householder and householder's spouse (if applicable). Enrolled in school means householder and householder's spouse (if applicable) are enrolled in school. Nearly 11% of severely cost burdened ELI renters are single-adult caregivers of a young child or disabled person, three-quarters of whom are in the labor force and three percent of whom are in school. Source: 2016 ACS PUMS.

[15] National Low Income Housing Coalition. 2018. *Out of Reach: the High Cost of Housing* [data files]. See: https://nlihc.org/oor

This mismatch between wages and housing costs will continue. Seven of the ten occupations projected by the U.S. Department of Labor to grow the most over the next decade provide a lower median wage than what is needed for a full-time worker to afford a modest one-bedroom apartment (see Figure 4).[16]

Figure 4

HOUSING WAGE AND MEDIAN WAGES FOR OCCUPATIONS WITH HIGHEST PROJECTED GROWTH



Source: Housing wages are derived from HUD fair market rents. Employment projections from BLS Employment Projections Program. Occupational wages from May 2017 National Occupation Employment and Wage Estimates, Occupational Employment Statistics, BLS. Adjusted to 2018 dollars.

II. <u>Declining Federal Resources</u>

The shortage of rental homes affordable to the lowest income people is caused by market failure and chronic underfunding of solutions. Without government intervention, decent and affordable homes cannot be reliably built, operated, and maintained at a price that the very lowest-income workers, seniors, or people with disabilities can afford. The private market cannot on its own solve this persistent market failure. Government intervention, in the form of subsidies, is necessary to fill the gap between what people can afford to pay and the costs of developing and operating rental homes.

Today's modern phenomenon of homelessness did not exist in the late-1970s because our country housed almost everyone, including the lowest-income and most vulnerable families. At that time, our country had a modest surplus of homes affordable and available to the lowest income people. The primary difference between then and now: federal subsidies.

Funding for affordable housing solutions has been declining for decades. Adjusting for inflation, the federal budget authority for housing assistance programs in the 1970s was nearly three times more than it is today,[17] despite the significant growth in the number of low-income renters eligible for housing assistance (see figure 5).[18]

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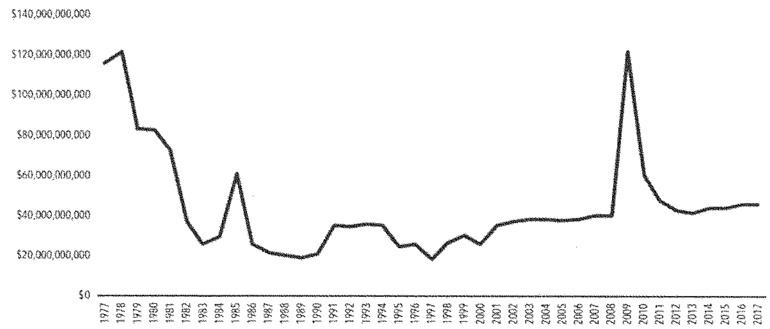
[16] National Low Income Housing Coalition. 2018. *Out of Reach: The High Cost of Housing*. Washington, DC: Author.

[17] Office of Management and Budget. 2018. Historical Table 5.1 – Budget authority by function and subfunction {data file}.

[18] Joint Center for Housing Studies of Harvard University. 2018. *The State of the Nation's Housing*. Cambridge, MA: Author.

Figure 5

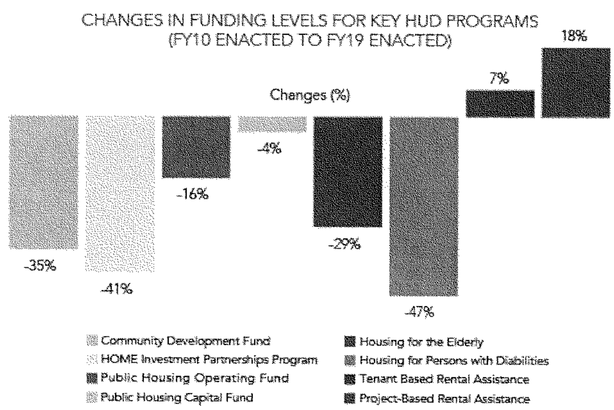
Federal Budget Authority for Housing Assistance (1977-2017)



Note: Adjusted to constant 2017 dollars using CPI-U. The 2009 American Recovery and Reinvestment Act included a major one-time increase for housing assistance. Source: OMB Historical Table 5.1 - Budget Authority by Function and Subfunction

HUD's budget has declined dramatically over the last ten years since the Budget Control Act (BCA) was enacted. Inflation-adjusted federal funding for public housing, housing for the elderly, housing for persons with disabilities, and other important programs has fallen precipitously since fiscal year 2010. Only tenant-based and project-based rental assistance program funding has modestly increased to keep up with the rising operating cost for previously authorized assistance (see Figure 6).

Figure 6



Note: Adjusted for inflation.

Deteriorating Public Housing Stock

Public housing plays a critical role in addressing America's affordable housing needs and is home to more than 2.6 million low income seniors, people with disabilities, families with children, and others. Like other federal housing investments, public housing provides families with the affordable, stable homes they need to live with dignity and financial independence.

Waiting lists for public housing are often closed or have years-long wait times.[19] NLIHC's report Housing Spotlight: The Long Wait for a Home analyzed a survey of PHAs and found that the average wait time is 9 months, and 25% of public housing waiting lists had a wait time of at 1.5 years. The largest PHAs had a median wait time of 2 years and twenty-five percent of them had wait times of at least 4 years. In 2012, the last time national waiting list data was collected, there were approximately 1.64 million families waiting for public housing units with only 80% of housing agencies reporting. Many housing waiting lists have since closed altogether.

Congress has underfunded public housing for decades. Beginning in the early 1980s, funding for public housing has decreased significantly. Between 2000 and 2016, funding for public housing repairs declined 53 percent, while funding for public housing operations met need only three times.[20] Between 2010 and 2016 alone, Congress cut public housing funding by $1.6 billion. While Congress recently increased funding for public housing in fiscal years 2018 and 2019, overall funding for the program remains 17% lower than the FY10 funding level.

These decades of declining resources have threatened the quality and even the existence of public housing. With limited funding, many public housing agencies (PHAs) are unable to make needed repairs to preserve these homes. As a result, our country loses 10,000 to 15,000 public housing apartments each year to obsolescence or decay,[21] as other public housing units fall into deep disrepair. In 2010, the country's public housing had a $26 billion capital-needs backlog, which is estimated to grow by $3.4 billion each year. The funding needed to address capital repairs in public housing is estimated to exceed $50 billion today.[22]

Rural and Tribal Housing Needs

Native Americans in tribal areas have some of the most severe housing needs in the United States. Overcrowding, deep poverty, unemployment, low household incomes, a rapidly increasing population, and lack of infrastructure are just some of the challenges in tribal areas.

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[19]Aurand, A. et al. (2016). *Housing Spotlight: the Long Wait for a Home*. National Low Income Housing Coalition. Retrieved from http://nlihc.org/article/housing-spotlight-volume-6-issue-1.

[20] Rice, D. (2016). *Cuts in Federal Assistance Have Exacerbated Families' Struggles to Afford Housing*. Center on Budget and Policy Priorities. Retrieved from https://www.cbpp.org/research/housing/chart-book-cuts-in-federal-assistance-have-exacerbated-families-struggles-to-afford.

[21] National Low Income Housing Coalition. 2019. *Advocates Guide*. Washington, DC: Author. See: https://nlihc.org/sites/default/files/AG-2018/2018_Advocates-Guide.pdf

[22] The "Transportation, Treasury, Housing and Urban Development, Judiciary, and Independent Agencies Appropriations Act of 2008" directed HUD to perform an updated Capital Needs Assessment for the public housing portfolio. (The previous assessment was conducted in 1998.) HUD selected Abt Associates to conduct the assessment, which was published as *Capital Needs in the Public Housing Program* (Contract # C-DEN-02277-TO001) on November 24, 2010. The assessment estimated total capital needs of the nation's public housing portfolio in 2010 to be $25,607,944,000. In addition, the assessment noted that "assuming that existing capital needs were completely addressed, each year approximately $3.4 billion would be required to address the ongoing accrual needs, or on average $3,155 per unit." Extrapolating the $3.4 billion in accrual needs each year from 2010 until 2019, the capital needs backlog is currently estimated to be $56.6 billion.

According to an extensive study of American Indian and Alaska Native (AIAN) housing conditions, some 6% of AIAN homes located in tribal areas had inadequate plumbing, 12% had heating deficiencies, and 16% were overcrowded, while nationwide only 1–2% of homes suffered each of these conditions.[23]

Despite the challenges and clear need, federal investments in affordable housing on tribal lands are chronically underfunded, particularly in more rural and remote areas. Because funding levels have not kept pace with inflation, the purchasing power of tribal housing programs have been reduced by about one-third since the enactment of the Native American Housing Assistance and Self-Determination Act (NAHASDA).[24]

Rural communities also face unique challenges to building and preserving affordable rental housing. Rural America tends to have lower incomes, higher poverty rates, and limited access to affordable capital. Federal funding for rural housing has been underfunded for decades, greatly reducing the ability to build new affordable rental homes and preserve existing housing stock, much of which is in poor and deteriorating condition and at risk of obsolescence.[25]

III. Alleviating the Affordable Housing Crisis Through Infrastructure Investments

Policymakers from both sides of the aisle agree that a large-scale investment in infrastructure should be a priority for Congress. To maximize this investment's impact on long-term economic growth, any infrastructure package should include resources to preserve and build affordable homes for families with the lowest incomes. Investing in deeply affordable housing infrastructure through new construction and preservation will bolster productivity and economic growth, provide long-term assets that connect low-income families to communities of opportunity, support local job creation and increased incomes, and create inclusive communities.

The connection between affordable housing and infrastructure is clear: like roads and bridges, affordable housing is a long-term asset that helps communities and families thrive. Without access to affordable housing, investments in transportation and infrastructure will fall short of creating vibrant, well-functioning communities. Increasing the supply of affordable housing, especially in areas connected to good schools, well-paying jobs, healthcare, and transportation, helps people climb the economic ladder and leads to stronger communities.

Housing infrastructure investments can also help create more inclusive communities. Historically, federal transportation infrastructure policies created and reinforced racial segregation by allowing the construction of highways and railroads to separate communities, contain their expansion, and physically isolate them from economic opportunity and community resources. By investing in affordable housing and transportation infrastructure in an equitable manner, Congress can create more robust and stable local economies and transform historically disadvantaged communities into ones of opportunity.

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[23] HUD. 2017. *Housing Needs of American Indians and Alaska Natives in Tribal Areas: A Report From the Assessment of American Indian, Alaska Native, and Native Hawaiian Housing Needs*. Washington, DC: Author. See: https://www.huduser.gov/portal/publications/HNAIHousingNeeds.html

[24] National Low Income Housing Coalition. 2019. *Advocates Guide*. Washington, DC: Author. See: https://nlihc.org/sites/default/files/AG-2018/2018_Advocates-Guide.pdf

[25] Housing Assistance Council. 2019. *Taking Stock: Rural People, Poverty and Housing in the 21st Century*. Washington, DC: Author. See: http://www.ruralhome.org/sct-information/mn-taking-stock

IV. The *"Housing is Infrastructure Act of 2019"*

The housing investments proposed by Chairwoman Waters in the "Housing is Infrastructure Act of 2019" are badly needed and long overdue. Investing in America's deteriorating public housing infrastructure, while also constructing new affordable homes for those with the greatest needs, including those in rural and tribal communities, should be included in any new infrastructure spending package.

Specifically, NLIHC strongly supports Chairwoman Waters's proposed investments of:

- **$5 billion to expand the national Housing Trust Fund (HTF)**, a program focused exclusively on addressing the underlying cause of the affordable housing crisis: the severe shortage of affordable rental homes for people with the lowest incomes;

- **$70 billion to repair and rehabilitate public housing** to preserve these affordable homes for current tenants and future generations; and

- **$2 billion to address critical housing needs in rural and tribal areas** through USDA's multifamily preservation and revitalization (MPR) program and programs authorized by the Native American Housing Assistance and Self-Determination Act (NAHASDA).

Additionally, increased funding for pre-disaster mitigation and new incentives for local governments to remove barriers and lower costs for affordable housing development, as proposed in the "Housing is Infrastructure Act of 2019," are important steps in the right direction.

The National Housing Trust Fund

The HTF, signed into law by President George W. Bush, is the first new federal housing resource in a generation exclusively targeted to build and preserve rental homes affordable to people with the lowest incomes. The HTF is administered as a block grant, allowing each state the flexibility to decide how to best use HTF resources to address the most pressing housing needs of its lowest-income renters. States are using their HTF investments to build, rehabilitate, or preserve affordable rental homes for extremely low-income veterans, seniors, people with disabilities or special needs, and people experiencing homelessness.

HTF funds are distributed to states by a formula that has four primary factors and one secondary factor. All four of the primary factors are based on the needs of the lowest-income renters. Two of these factors are based on the shortage of rental units affordable and available to extremely low-income and very low-income households. The other two primary factors are based on the number of extremely low-income and very low-income renter households paying more than 50% of their incomes for rent and utilities. The secondary factor reflects the relative cost of construction in a state compared to the national cost. The statute guarantees each state a minimum of $3 million dollars each year an allocation is made.

While still new, the HTF program is allowing local communities to build much-needed rental homes for some of the country's lowest-income and most vulnerable families. NLIHC's recent interim analysis of how states have started using the 2016 national allocation of $174 million found that 43 states awarded HTF funds to 138 projects with over 1,500 HTF-assisted homes.[26] Since the mid-September 2018 interim report, all states and the District of Columbia have awarded HTF funds bringing the total to 160 projects with more than 1,900 HTF-assisted homes.

To allow this critical work to continue and better meet the overwhelming need, Congress should include the "Housing is Infrastructure Act of 2019" provision of $5 billion for the HTF in a final infrastructure spending package.

Public Housing Capital Fund

An investment of $70 billion for the Public Housing Capital Fund, as proposed in the "Housing is Infrastructure Act of 2019," could quickly be put to use to repair America's deteriorating public housing infrastructure. With this level of investment, communities could address the growing backlog of capital needs in public housing to make critical infrastructure repairs, such as fixing leaky roofs, replacing outdated heating systems, and remediating mold to improve the health and living conditions for millions of residents, and to protect a key piece of America's affordable rental housing stock.

The federal government has already invested resources to develop, maintain, and operate public housing. Without increased funding for preservation, communities will lose an important asset, low-income people will lose their homes, and the federal government will lose its investment.

Rural and Tribal Housing

Congress should invest at least $2 billion to address the critical shortage of affordable rental housing in rural and tribal areas, as proposed in the "Housing is Infrastructure Act of 2019." By increasing resources for HUD's NAHASDA program and USDA's Multifamily Preservation and Revitalization (MPR) and Section 515 Rural Rental Housing Loan programs, Congress can begin to provide tribes and rural communities the assistance they need to preserve affordable homes for current and future tenants. Without increased resources, many of these particularly vulnerable communities may lose their only available source of affordable rental homes.

Other Considerations

NLIHC supports an expansion of the Low Income Housing Tax Credit (Housing Credit) program as part of an infrastructure package, as being considered by the House Ways and Means Committee. An expansion of the Housing Credit should be paired with needed improvements to the program to increase its ability to serve extremely low-income renters and to encourage development in challenging markets, like rural communities and tribal lands. Even with these reforms, however, the Housing Credit cannot on its own meet the housing needs of renters with the lowest incomes. Additional targeted resources, including investments in the Housing Trust Fund, public housing capital repairs, and rural and tribal housing, must be included in any final infrastructure package to ensure that families with the greatest housing needs benefit.

NLIHC opposes proposals to increase the income targeting of federal subsidized housing programs – whether through the CDBG program or proposals to subsidize middle-income,

[26] National Low Income Housing Coalition. 2018. *Getting Started: First Homes Being Built with 2016 National Housing Trust Fund Awards*. Washington, DC: Author. See: https://bit.ly/2pPj9YT

market rate housing. Using scare federal dollars to subsidize market-rate housing is misguided and wasteful. In most areas of the country, the private market meets the needs of middle-income renters. Where it does not, the federal government's role should be incentivizing or requiring local communities to decrease regulatory and zoning barriers to facilitate more housing production by the private sector. Congress should consider utilizing federal infrastructure investments as incentives for local communities to do so.

V. The Case for Increased Federal Investments in Affordable Homes

Investing in affordable housing solutions, like the national HTF, public housing, rural and tribal housing, and other proven solutions to ending homelessness and housing poverty improves lives and saves the federal government money. Research clearly demonstrates that housing is inextricably linked to an array of positive outcomes in other sectors.

Education: Student achievement is maximized when students can go home to stable, affordable homes. Low-income children in affordable homes perform better on cognitive development tests than those in unaffordable homes.[27] Low-income students who are forced to change schools frequently because of unstable housing perform less well in school and are less likely to graduate,[28] and continual movement of children between schools disrupts learning for all students in the classroom because more time is required for review and catch-up work.[29] When affordable housing options are located in high-opportunity areas with low poverty and economically diverse schools, it can dramatically lift the academic performance of low-income students and narrow the achievement gap between them and their more affluent peers.[30] Across the country, low-income families are priced out of the strongest schools; housing near high-performing public schools costs 2.4 times more than housing near low-performing public schools.[31]

Health: Decent, stable, affordable homes are a major social determinant of health and are linked to better health outcomes throughout a person's lifespan. Children who experienced pre-natal homelessness are 20% more likely to have been hospitalized since birth. Children who

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[27] Newman, S. J. & C. S. Holupka. 2015. *Housing Affordability and Child Well-Being*. Housing Policy Debate, 25(1), 116-151. Retrieved: https://www.tandfonline.com/doi/abs/10.1080/10511482.2014.899261

[28] Voight, A., Shinn, M., & Nation, M. 2012. *The Longitudinal Effects of Residential Mobility on the Academic Achievement of Urban Elementary and Middle School Students*. Educational Researcher, 41(9), 385-392. Retrieved from http://journals.sagepub.com/doi/pdf/10.3102/0013189X12442239; Cunningham, M., & MacDonald, G. 2012. *Housing as a Platform for Improving Education Outcomes among Low-Income Children*. Washington, DC: Urban Institute. Retrieved from: http://www.urban.org/sites/default/files/publication/25331/412554-Housing-as-a-Platform-for-Improving-Education-Outcomes-among-Low-Income-Children.PDF; Fischer, W. 2015. *Research Shows Housing Vouchers Reduce Hardship and Provide Platform for Long-Term Gains Among Children*. Washington, DC: Center on Budget and Policy Priorities. Retrieved from http://www.cbpp.org/sites/default/files/atoms/files/3-10-14hous.pdf.

[29] Cunningham, M., & MacDonald, G. 2012. *Housing as a Platform for Improving Education Outcomes among Low-Income Children*. Washington, DC: Urban Institute. Retrieved from http://www.urban.org/sites/default/files/publication/25331/412554-Housing-as-a-Platform-for-Improving-Education-Outcomes-among-Low-Income-Children.PDF

[30] Schwartz, H. 2010. *Housing Policy is School Policy*. Washington, DC: The Century Foundation. Retrieved from https://tcf.org/assets/downloads/tcf-Schwartz.pdf.

[31] Rothwell, J. 2012. *Housing Costs, Zoning, and Access to High-Scoring Schools*. Washington DC: Brookings Metropolitan Policy Program. Retrieved: https://www.brookings.edu/wp-content/uploads/2016/06/0419_school_inequality_rothwell.pdf

experienced post-natal homelessness are 22% more likely to have been hospitalized since birth.[32] In 2011, families living in unaffordable homes spent one-fifth as much on necessary healthcare compared to those in affordable housing.[33] When people have access to good affordable housing, primary care visits increase by 20%, ER visits decrease by 18%, and total Medicaid expenditures decrease by 12%.[34] Children's HealthWatch estimates that the U.S. will spend $111 billion over the next ten years in avoidable healthcare costs because of housing instability[35].

Racial Equity: Affordable homes located in economically diverse neighborhoods can help reduce residential segregation and concentrations of poverty. Today, one in four African American families and one in six Hispanic families live in neighborhoods of concentrated poverty, compared to only one in 13 white families. A recent study by the Urban Institute found that if Chicago reduced its residential segregation just to the national median, incomes for African Americans would rise by $2,982 per person per year, regional GDP would increase by $8 billion, the homicide rate would decrease by 30%, residential real estate values would increase by six billion dollars, and 83,000 more adults would complete a bachelor's degree.[36]

Economic Mobility: Affordable homes can also help children achieve the American dream by climbing the income ladder as adults. Economist Raj Chetty and his team looked at low-income children whose families used housing vouchers to access affordable homes located in neighborhoods with lower poverty. These children were much more likely to attend college, less likely to become single parents, and more likely to earn more as adults. In fact, younger poor children who moved to lower-poverty neighborhoods with a housing voucher earned an average of $302,000 more over their lifetimes compared to their peers in higher-poverty neighborhoods.[37] In 2015, the Children's Defense Fund modeled an expansion of the Housing Choice Voucher program and found that expanding these housing subsidies would reduce child poverty by 20.8% and lift 2.3 million children out of poverty. In fact, they found housing subsidies would have the greatest impact on alleviating child poverty compared to the nine other policy solutions they explored.[38]

Economic Productivity: Investments in affordable homes are a proven catalyst for economic growth, job creation, increased government revenue, and increased consumer spending.

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[32] Sandel, M., et. al. 2016. *Housing as a Healthcare Investment*. National Housing Conference and Children's HealthWatch.Retrieved: https://www.opportunityhome.org/wp-content/uploads/2018/02/Housing-as-a-Health-Care-Investment.pdf

[33] Joint Center for Housing Studies of Harvard University. 2013. *The State of the Nation's Housing*. Retrieved: http://www.jchs.harvard.edu/sites/default/files/son2013.pdf

[34] Wright, B., et. al. 2016. *Health in Housing*. Center for Outcomes Research and Education. Retrieved: https://www.enterprisecommunity.org/download?fid=5703&nid=4247

[35] Poblacion A, Bovell-Ammon A, Sheward R, Sandel M, Ettinger de Cuba S, Cutts D, Cook J. *Stable Homes Make Healthy Families*. Children's HealthWatch Policy Action Brief. August 2017. Available at: http://childrenshealthwatch.org/wp-content/uploads/CHW-Stable-Homes-2-pager-web.pdf

[36] Pendall, R., Acs, G., & Trekson, M. 2017. *The Costs of Segregation*. Urban Institute and Metropolitan Planning Cancel. Retrieved: https://www.metroplanning.org/work/project/33

[37] Chetty, R., Hendren, N., & Katz, L. 2015. *The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment*. Cambridge, MA: National Bureau of Economic Research. Retrieved from http://www.nber.org/mtopublic/final/MTO_IRS_2015.pdf.

[38] Children's Defense Fund and Urban Institute. 2015. *Ending Child Poverty Now*. Retrieved: https://www.childrensdefense.org/wp-content/uploads/2018/06/Ending-Child-Poverty-Now.pdf

According to the National Association of Home Builders, building 100 affordable homes generates $11.7 million in local income, 161 local jobs, and $2.2 million in taxes and other revenues for local government. The high costs of housing are limiting opportunities for people to increase their earnings, which, in turn, slow GDP growth. Researchers estimate that GDP growth between 1964 and 2009 would have been 13.5% higher if families had better access to affordable homes. This GDP increase would have meant a $1.7 trillion increase in income, or $8,775 in additional wages per worker.[39]

Food Security: When rent eats up an already limited paycheck, low-income families have fewer resources to buy adequate and nutritious food. Low-income families that live in affordable homes experience greater food security and their children are 52% less likely to be seriously underweight compared to those who are cost-burdened by rent.[40]

Criminal Justice: Individuals transitioning out of the criminal justice system face many housing obstacles and are vulnerable to homelessness. They need a good place to call home so that they can reconnect with society and rebuild their lives. Formerly incarcerated individuals who find stable affordable housing are less likely to go back to jail than those who do not.[41]

Veterans: After serving our country bravely, veterans need access to decent, stable, affordable homes so they can thrive in the neighborhoods they swore to defend. Rental assistance for veterans has proven highly effective in dramatically reducing veteran homelessness, but there remains significant unmet need.[42]

The evidence is abundantly clear that being able to afford a decent home in a strong neighborhood is a prerequisite for opportunity in America. The promise of better health, increased economic opportunity, and quality education can be fulfilled only if our nation's families have safe, decent, affordable homes.

VI. Conclusion

The country's affordable housing crisis has reached historic heights, most harming the lowest income renters. Inaction is expensive; investments in proven solutions to end homelessness and housing poverty benefit us all. Like roads and bridges, affordable housing is a long-term asset that helps communities and families thrive. Without access to affordable housing, investments in transportation and infrastructure will fall short of creating vibrant, well-functioning communities. An infrastructure package presents an opportunity for Congress to increase investments in decent, affordable rental homes for households with the lowest incomes. NLIHC looks forward to working with Congress to advance and enact an infrastructure spending package that includes the "Housing is Infrastructure Act of 2019." Thank you again for the opportunity to testify today. I look forward to your questions.

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Center on Budget and Policy Priorities

Infrastructure Plans Should Boost Affordable Housing for Lowest-Income Americans

BLOG POST | APRIL 30, 2019 AT 9:30 AM | BY WILL FISCHER

As policymakers consider proposals to strengthen the nation's infrastructure, they should prioritize funds to address public housing's unmet renovation needs and build and preserve other housing that's affordable to the lowest-income families, seniors, and people with disabilities.

Like other infrastructure investments, affordable housing funding creates construction activity and jobs. Many projects funded through the Department of Housing and Urban Development (HUD) have the added benefit of requiring that some of the resulting jobs and small business opportunities go to public housing residents and other low-income people – groups that often miss out on opportunities that other infrastructure projects create.

Investments in affordable housing also would advance such important goals as:

- **Addressing substandard living conditions.** Investments in aging developments can fix such problems as faulty elevators, broken heating systems, and lead paint hazards, which jeopardize residents' safety and harm children's health and development.

- **Helping families afford housing.** About 11 million renter households pay over half their income for housing, forcing them to divert resources from other basic needs and placing them at risk of housing instability and homelessness – problems linked to long-term harm to children. The great majority of these households have incomes below the poverty line, so building and preserving housing affordable to the lowest-income people will help meet the most pressing affordability needs.

- **Furthering environmental goals.** Affordable housing investment can help fight pollution and climate change by making buildings more energy efficient and support developing or preserving affordable housing near public transportation, thereby likely reducing carbon emissions.

- **Cutting future public costs.** Providing housing that's affordable to poor households can reduce public costs in other areas, such as lowering health care costs by enabling seniors and people with disabilities to live independently rather than in institutions.

Most urgently, an infrastructure package should fund renovation of the nation's public housing, which has a massive backlog of unmet capital needs due to decades of federal underfunding. A 2010 HUD-sponsored study estimated those needs at $26 billion, and the figure is now likely higher. With more funding, local public housing agencies could address unsafe and unhealthy conditions and preserve housing developments that provide affordable homes to close to 1 million households. These investments can be especially cost-effective, since they can reduce future costs for repairs (for example by patching a leaky roof before damage spreads) or utilities.

Policymakers should also include funds for privately owned affordable housing, most importantly by expanding the National Housing Trust Fund — which preserves and develops housing affordable to the lowest-income families, but at its current funding level can meet only a small fraction of the need for such housing.

TOPICS: Housing

Council for Affordable and Rural Housing

Serving the Affordable Housing Needs of Rural America

Written testimony by the Council for Affordable and Rural Housing for the House Financial Services Committee Hearing, April 30, 2019: "Housing in America: Assessing the Infrastructure Needs of America's Housing Stock."

Chairwoman Waters, Ranking Member McHenry, and members of the Committee, on behalf of the Council for Affordable and Rural Housing (CARH) we would like to submit written testimony in support of efforts to increase investment in rural America's infrastructure. CARH is a trade association with headquarters in Alexandria, Virginia. CARH represents the interests of for-profit and non-profit builders, developers, management companies, and owners, as well as financial entities and suppliers of goods and services to the affordable rental housing industry in rural America.

CARH is pleased to be part of the Rebuild Rural Coalition which has been organized in order to bring focus to the infrastructure needs of rural America. We support the efforts of the Coalition and agree that infrastructure legislation by Congress should specifically address the unique needs of agriculture and rural communities. We applaud efforts to increase broadband in rural America. Broadband will do much to increase rural American's access to health care and business opportunities. However, an overlooked aspect of broadband development is how it will also increase the livelihood of residents to access the internet from their homes. Roads and other infrastructure needs that have been identified by other committees are important, but without housing for rural Americans to live in, Congress is not addressing all of rural communities' needs.

Affordable rental housing issues affect residents and a broad array of local government, non-profit, and for-profit participants working together in partnership. Rural renters are more than twice as likely to live in substandard housing compared to people who own their own homes. With lower median incomes and higher poverty rates than homeowners, many renters are simply unable to find decent housing that is also affordable. While the demand for rental housing in rural areas remains high, the supply, particularly of new housing, has decreased. Housing instability has well-documented effects on the education and health of this country's greatest asset, our children. Neither the private nor the public sector can produce affordable rural housing independently of the other; it needs to be a partnership. There are several areas within the rural housing arena that Congress and the Administration should consider as discussion continues on the infrastructure needs of rural communities.

The United States Department of Agriculture's (USDA)/Rural Development (RD) Section 515 rural multifamily housing and Section 514 farm labor multifamily properties are a lynchpin for affordable rural housing. Poverty rates in rural areas are substantially higher than in urban areas. Therefore, rental assistance under the Section 521 Rental Assistance (RA) program is essential for many family and elderly households residing in rural America. At the same time, most federally supported multifamily properties are 35+ years old and are ready for modernization. These properties have suffered from federal funding shortages and statutory and regulatory barriers that make recapitalization difficult or impossible.

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Rural housing is dependent on several sources of funding for construction and preservation of the existing housing stock. The Low-Income Housing Tax Credit (Housing Credit) program is a vital source for this important housing. The Housing Credit program has worked successfully since its creation in 1986. It bridges the gap between what the market provides and what the market demands. In short, America's elderly, working families, civil servants, and working poor seek to live in or near their jobs, families, and communities. In much of America, this need cannot be met. Homeownership is out of reach or not financially viable. Indeed, the cost of providing any new housing or rehabilitating existing housing to current standards without public-private assistance is too expensive for most low-income Americans. The Housing Credit program allows multi-family housing providers to utilize cost-effective, energy-efficient housing developments to meet this need. The program also allows non-profit and for-profit companies to work together with local and state governments to raise private equity and put it to use bridging the financial gap. The savings are passed on to the residents in the form of affordable rental housing.

When the Housing Credit program was enacted as part of the Reagan-era Tax Reform Act of 1986, it did not create a large new bureaucracy. Instead, it uses a small policy-setting staff at the Internal Revenue Service to coordinate funding to states, which in turn works with state Housing Finance Agencies or local agencies, depending on the local choices. These state and local agencies rigorously inspect and asset manage, but their job is made easier by the private investment system. Housing Credit investors are strongly motivated to require project owners and managers to consistently comply with housing requirements, even before government inspections.

The Consolidated Appropriations Act, 2018, created a new occupancy threshold by allowing income averaging. In sum, this allows flexibility to new Housing Credit properties by varying income limited at 10 percent increments between 20 percent and 80 percent. Section 515 and 514 properties already permit this income range and certain existing properties will benefit from this program to help lower rents for certain units, permitting unsubsidized units that remain vacant for extended periods to be reoccupied more quickly in very low-income areas. But the income averaging is prospective only and RD policy limits projects to one rent per unit type, and when incomes vary that much, rents need to also vary to accommodate the tenants. A statutory change is needed to both make income averaging available for existing properties as well overcome this RD limitation. Of course, any such proposal will need to be implemented protecting existing residents and existing use restrictions.

The Section 521 RA program is an essential component of the Section 514/515 programs. The average annual income of residents in rural housing properties is approximately $12,960. RA provides deep subsidy to very low-income residents by paying the difference between 30 percent of a resident's income and the basic rent required to operate the property; 63 percent of Section 515 units are subsidized with RA. The RA program must continue to provide sufficient funds for both current levels of RA and sufficient additional RA to support increasing program costs. RA budgets have been constrained for at least four years, even before the sequestration issues impacting the program at the end of Fiscal Year (FY) 2013. Historically, RA budgets on a per unit basis are about half of other rental subsidy programs. Much of that has been achieved by delaying needed repairs and restricting operating funds.

The RA program has been adjusted solely through the appropriations process for about two decades. While we appreciate the hard work of appropriators in both the House and Senate, we believe it is time for a thorough review through the Congressional authorizing committees (the House Financial Services and the Senate Banking, Housing and Urban Affairs Committees), and that hearings on the Agency programs and proposals should be a priority for the Congress. We applaud the April 2nd hearing by the

Housing, Community Development and Insurance Subcommittee of the House Financial Services Committee, at which a witness testified on behalf of CARH. This hearing was the beginning of your committee's oversight of the Rural Development (RD) housing programs and discussion of how to improve the agency's current rural housing programs.

Congressional review should also include program updates such as the ability to utilize flexible rents and longer term rent incentives to more efficiently occupy vacant units at turnover. Another simple improvement to make RA more efficient is to provide 20 year contracts, subject to annual appropriations. Not only would this reduce the costs associated with reprocessing contracts on an annual basis without increased appropriations, it would also create a more reliable subsidy. This will help attract potential investors and lenders to Section 514 and 515 properties.

A substantial portion of Section 515 properties also have project-based Section 8 subsidy and residents with tenant based Section 8 housing choice vouchers. CARH also supports a strong project-based and tenant-based set of Section 8 programs.

The rural multifamily programs were never intended as a one-time capitalization of low-income housing. The original intent was to allow properties to refinance out of the program, and provide a market centric nucleus of decent housing in rural areas—indeed USDA originally required owners to refinance out of the program at the first opportunity. The federal government changed the laws, rules, and basic operations when it changed the federal tax code, withdrew prepayment rights, and reduced Section 515 funding without any replacement mechanism.

In order to save the $11.5 billion Section 515 program, and its sister Section 514 farm labor housing program, RD's current demonstration efforts have shown preservation can be successful but the number of properties able to be preserved with current resources will not achieve portfolio preservation in any reasonable time period.

The Section 514 and 515 programs under Section 514 and 515 of the Housing Act of 1949, operates through a successful public-private partnership. The 514 and 515 portfolios reportedly consist of 13,766 apartment complexes containing 421,816 rental homes, a staggering decrease of 14,234 properties and over 111,000 apartment homes since the program inception in 1963 - an approximate 51% reduction in the housing stock. According to RHS, they have not financed any new affordable rental units since 2011. Section 515 properties are geographically dispersed across all rural America.

In 2002, RD estimated that 4,250 Section 515 properties with 85,000 units "will physically deteriorate to the point of being unsafe or unsanitary within the next 5 years." At that time, RD estimated it would need $850 million to maintain just this portion of the portfolio, and that as much as $3.2 billion will be required for portfolio-wide rehabilitation. Little progress has been made since 2002. Adjusted for inflation, the 2002 $3.2 billion estimate is now approximately $5 billion. Due to RD's policies over the past six years, the RD multifamily portfolio is under 15,000 projects for the first time in 20 years. In 2016, RD contracted for its own study, which confirmed the existence of significant deferred maintenance. At this rate of lost properties, we encourage preservation prioritization of existing properties ahead of new construction, as it is much more cost effective to complete a substantial rehabilitation compared to the cost of building new.

Providing for this portfolio will not only care for the extremely low income families and elderly residents, but will improve infrastructure and create jobs. For each 100 apartment units, 116 jobs (plus an additional 32 recurring local jobs) are created, generating more than $3.3 million in federal, state and local revenue. Moreover, many rural areas are facing worker shortages due to the lack of available affordable housing near rural jobs.

Maturing mortgages have overtaken prepayments as the most pressing issue. According to Rural Development, approximately 77 properties with 1,759 units are maturing out of the mortgage programs over the next 18-24 months, and that number will only significantly increase past 2027. When a 514/515 mortgage ends, whether through prepayment or foreclosure or maturity, the Section 521 RA also ends, exposing below-market residents to market rents and turning assisted properties into market-rate properties. In 300 counties, Section 515 properties are the majority of project-based federally subsidized units and 90 percent of all Section 515 properties are in counties with persistent poverty.

CARH also has several legislative proposals that, working with RD and Congress will help expand tools available to RD in preserving this housing. The traditional rural rental housing and rent subsidy programs work and work as a program that can attract other forms of public and private assistance. But Congress needs to be clearer and instruct RD to use financing on hand, specifically Section 521 RA for preservation. In past years when Congress specifically provided funding for preservation, RD processed that specific amount. Without that clarity, the last two Administrations have allowed other priorities, including holding on to reserves of RA, to take priority over preservation transactions. While we welcome a greater appropriation of RA, more important than even that is a specific direction to RD to spend all funds on hand each fiscal year.

We believe that existing escrows required by RD can serve a dual purpose of capitalizing a new revolving loan fund: using deposits in the Rural Housing Insurance Fund, not needed in the current fiscal year, to loan to eligible properties at the applicable federal rate of interest; and, to pay for asset management costs and offset loan risk. The proposed loans also would be backed by a voluntary guaranty or pledge of Section 515 reserve funds from owners of participating properties. Another long neglected tool is Section 515(t), which USDA has not implemented but should, because it could guarantee equity loans to provide a fair return and further recapitalization resources for properties that are 20 years old or older, attracting new owners and new private capital.

Congress should consider creating a Loan Risk Sharing Program for lenders to increase credit to rural areas. This program would provide additional funding authority for rural areas that would support and encourage the production and preservation of affordable housing. In addition, the program would provide insurance and reinsurance for multifamily housing projects whose loans are originated, underwritten, serviced, and disposed of by a local housing agency (LHA) or a lender.

A LHA and/or its approved lender would originate and underwrite affordable housing loans. If there is a default, the LHA would pay all costs associated with loan disposition and would seek reimbursement from USDA. The USDA risk share would be 50 percent pro-rata. The program would enable USDA to provide alternative forms of Federal credit enhancement to increase affordable multifamily housing lending. USDA would selectively invite LHA to participate in a variety of mortgage options to assess the effectiveness of the various credit enhancements. The LHAs and USDA would enter into Risk-Sharing agreements to implement the program. A LHA or its lender, in turn, would make loans to investors, builders, developers, public entities, and private nonprofit corporations or associations. Eligible mortgagors include investors, builders, developers, public entities, and private non-profit corporations or associations.

We greatly appreciate the support shown both in Congress and the current Administration for a fee-based, revenue neutral Section 538 Guaranteed Rural Rental Housing program. We believe that the

Section 538 is proving to be an important housing tool, at no cost to the government or taxpayers. CARH has recommended to RD, and we understand RD is reviewing a variety of administrative adjustments to the 538 program that would allow even more units to be preserved or produced, with increased cost efficiency. We would encourage a statutory chance to make it easier to refinance existing rural housing not already in the 538 program.

Also, key to rural housing recapitalization is maintenance of the HOME Partnerships program administered by the Department of Housing and Urban Development (HUD). HOME uniquely empowers state and localities to respond to the housing needs they judge most pressing, allowing them to serve the whole spectrum of need from homelessness to rental to disaster recovery assistance. HOME is flexible and can be used in rural or non-rural areas. The program is a vital piece in financing numerous affordable housing developments, many of which would not be able to go forward, which in turn, would mean not providing housing for low-income families. HOME does not replace resources committed to rural areas, but is an important gap financing program. States and localities leverage HOME by generating almost four dollars of other public and private funding.

Since its inception in 1986, the Housing Credit program has created homes for approximately 2.4 million families. As indicated earlier in this testimony, for each 100 apartment units, 116 jobs are created, generating more than $3.3 million in federal, state and local revenue. This important housing resource creates a positive, broad-based economic benefit that includes jobs (particularly construction jobs), income and taxes in industries such as manufacturing, trade, and services, in addition to construction. Income includes business profits as well as wages and salaries paid to workers. Affordable housing not only creates jobs directly, but also facilitates job growth. Affordable housing shortages prevent workers from meeting job demand in rural areas with limited housing options.

Rural housing construction and preservation projects have access to only a few funding sources. The Housing Credit program is a vital source for this important housing. The Housing Credit is narrowly targeted and represents the best of the public-private partnership between government, local communities, and the private sector. The program is the most successful affordable rental housing production program and its place in the tax credit code is an essential part of its long-term success. Indeed, the Housing Credit has been so successful that it has become the model for subsequent programs.

Since its inception in 1986, the Housing Credit program has created homes for approximately 2.4 million families. For each 100 apartment units, 116 jobs are created, generating more than $3.3 million in federal, state and local revenue. This important housing resource creates a positive, broad-based economic benefit that includes jobs (particularly construction jobs), income and taxes in industries such as manufacturing, trade, and services, in addition to construction. Income includes business profits as well as wages and salaries paid to workers. Affordable housing not only creates jobs directly, but also facilitates job growth. Affordable housing shortages prevent workers from meeting job demand in rural areas with limited housing options.

CARH believes it is critical that both the Housing Credit and Housing Bond programs continue. Reforming, simplifying, and flattening the Internal Revenue Code (Tax Code) is a centerpiece to many efforts to spur economic growth. However, the Tax Code has proven to be an efficient way to incentivize private sector to meet affordable housing needs that the private sector alone is not able to meet. We support legislative changes that would both strengthen and expand these two important programs so rural housing preservation and new construction can continue. During the last Congress H.R. 1661 was introduced and many of its provisions remain important to preserve rural housing. Efforts are currently underway to have legislation reintroduced in this Congress. While the legislation is under the jurisdiction of the Ways and Means Committee, all members of this Committee should cosponsor this important bill when introduced.

The federal Internal Revenue Code restricts potential Housing Credit investors through passive loss limitations, limiting the ability of associations that are not real estate professionals from investing. Housing Credits should be available to S Corporations, Limited Liability Companies, and closely-held C Corporations to the same degree Housing Credits are currently available to widely held C Corporations, to offset revenue with Housing Credits that would otherwise be taxable when passed through to the owners of these businesses. To ensure high standards of oversight, such entities should have at least $10 million in annual gross receipts, be formed for reasons other than just avoidance of Federal income tax, and have an expectation of reasonable asset management. This proposal is aimed at accessing substantial investment capital available from sophisticated financial institutions and businesses that happen not to be widely-held Schedule C corporations. Indeed, this change would allow the 1,954 commercial banks and 55 savings institutions to invest in low-income housing tax credits in the communities in which they operate.

Another barrier to preservation and tenant protection is an unintended one, resulting from a conflict between the tax code and market forces. Almost all Section 515 properties were constructed through limited partnership arrangements whose structure makes it exceedingly difficult to introduce new capital into these properties, either through additional capital contributions from current owners or through the transfer of such properties to new owners. Most were also created before the 1986 Tax Reform Act. Because rent restrictions limit cash flow, new capital contributions would only generate additional passive losses that cannot be utilized by current investors. Yet, if the current owners sell a property it is almost impossible to generate sufficient cash to pay off the steep recapture taxes that would be owed. The best alternative for current limited partners is to hold the investment until death, enabling their heirs to acquire the property with a stepped up basis that avoids any recapture taxes. While that is a perfectly rational decision at the partner level, it is not consistent with sound housing policy and risks imposing far higher costs on the federal government as these capital-starved properties either continue to deteriorate as affordable housing or are sold off as market rate housing as a means of generating cash on the sale to pay exit taxes for investors.

A modest change in the tax rules must be adopted to preserve the stock of Section 515 affordable housing. This could be accomplished by waiving the depreciation recapture tax liability where investors sell their property to new owners who agree to invest new capital in the property and to preserve the property as affordable housing for another 30 years. Since very few investors subject themselves to recapture taxes today, opting instead to pass on the property to their heirs at a stepped-up basis, the cost of this proposal should be modest while the benefit to the federal government of extending the affordability restrictions will be far-reaching. During the 111th Congress, legislation was introduced, H.R. 2887, the Affordable Housing Tax Relief Act of 2009, which if enacted, would have embodied this concept.

Again, we support the efforts of the Rebuild Rural Coalition and agree that infrastructure legislation by Congress should specifically address the unique needs of agriculture and rural communities. We recognize that a private-public partnership is needed. The various housing programs outlined in this testimony are evidence of the success of this partnership. However, we know that more can and must be done so that the housing and infrastructure needs of rural America can successfully be achieved. In this regard, we thank you Chairwoman Waters for proposing the recommended funding level for RD's Multifamily Preservation and Revitalization (MPR) program in the draft legislation entitled "Housing is Infrastructure Act of 2019." We would urge the Committee to expedite consideration of this legislation as drafted.

Thank you for this opportunity to provide written testimony to the Committee. We thank the Committee for bringing housing into the conversations surrounding infrastructure initiatives.

CLPHA
Strengthening Neighborhoods. Improving Lives.

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April 29, 2019

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
United States House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairwoman Waters:

The Council of Large Public Housing Authorities (CLPHA) is pleased to submit the following statement for the record to the United States House of Representatives Committee on Financial Services for the hearing of April 30, 2019, and appreciates the opportunity to offer our views on the important topic of, "Housing in America: Assessing the Infrastructure Needs of America's Housing Stock."

CLPHA is a non-profit organization committed to preserving, improving, and expanding the availability of housing opportunities for low-income, elderly, and disabled individuals and families. CLPHA's members comprise more than 70 of the largest housing authorities, in most major metropolitan areas in the United States. These agencies act as both housing providers and community developers, effectively serving over one million households, managing almost half of the nation's multi-billion dollar public housing stock, and administering over one-quarter of the Section 8 Housing Choice Voucher program.

We are grateful to the Committee for calling attention to the deteriorating physical condition of much of our nation's public housing stock due to years of disinvestment in its infrastructure. Coupled with an historically inadequate supply of decent, affordable housing, this set of circumstances has contributed to an affordable housing crisis across the American landscape. We applaud Financial Services Committee Chairwoman Maxine Waters for her leadership in championing the "Housing is Infrastructure Act of 2019," legislation designed to address the untenable shortage of stable housing for low-income households.

As one of the nation's largest sources of affordable housing, public housing plays a central role in the nation's infrastructure. Similar to roads, bridges, and waterways, affordable housing is a long-term infrastructure asset that helps communities and families thrive. Public housing represents a significant investment on the part of the federal government. However, like roads, bridges, and waterways that lack adequate resources to be properly maintained, HUD estimates over 300,000 units of affordable public housing were lost since 1990 due to chronic underfunding.

Capital Fund

Public housing authorities are good stewards of Public Housing Capital Funds. Under previously enacted infrastructure investment legislation, specifically the "American Recovery and Reinvestment Act of 2009," housing authorities were efficient, effective and innovative in using Public Housing Capital Funds by quickly spending their funding on ready-to-go projects that bolstered economic growth, created jobs and improved opportunity and quality of life for residents. A subsequent U.S. Government Accountability Office analysis also confirmed that housing authorities were timely and efficient in using infrastructure funds.

The Administration and Congress have signaled that restoration of the nation's infrastructure is critical to the nation's economic vitality, health and safety. A significant federal investment in affordable housing infrastructure should be a top priority, and CLPHA urges Congress to provide the $70 billion in funding proposed for the Capital Fund in the Housing is Infrastructure Act. This investment is critical to further prevent the deterioration of our crumbling public housing inventory.

Rental Assistance Demonstration Program

An additional tool that Congress can expand to address the deteriorating condition and supply of public housing is the Rental Assistance Demonstration (RAD) program. RAD is a preservation program focused on protecting and improving the nation's at-risk public housing stock by moving the rental assistance to a Section 8 subsidy platform. RAD allows public housing authorities to leverage private capital through a variety of proven financing tools as a key solution in tackling the unmet capital backlog needs in the public housing program. Since its start, RAD has already spurred $6.6 billion in construction financing and successfully converted more than 110,000 units.

Expansion of the RAD program is presently restrained by an unnecessary and arbitrary cap on the number of units that can participate in the program. The cap creates artificial limits on unit conversions; interferes with long-term portfolio planning; impedes the alignment of timeframes for additional funding sources; and hinders full portfolio conversion over multiple years.

CLPHA urges the Committee to support completely eliminating the unit cap. Additionally, we urge the Committee to support the Department of Housing and Urban Development (HUD), CLPHA and other stakeholders' initial request for incremental funding to enable housing authorities with high-cost, high-needs properties the opportunity to more fully participate in RAD in order to address their infrastructure needs.

Low-Income Housing Tax Credit

The Low-Income Housing Tax Credit (LIHTC), which serves as the primary financing tool for public housing recapitalization and redevelopment strategies including RAD, enables public-private partnerships to preserve at-risk public housing. As an example, utilizing LIHTC, RAD has leveraged over $5.2 billion in private financing to help convert over 47,000 public housing units, more than any other single source of financing for the RAD program.

Without an incentive like the housing credit, it is simply not financially feasible for public-private partnerships to build affordable homes for the families that need them most. Nearly 72 percent of residents living in federal public housing are extremely low-income, meaning their incomes are at or below 30 percent of area median income. Given the significant unmet needs, many public housing authorities seeking to recapitalize their properties would benefit from 9 percent tax credits, but the competition for the credits makes them difficult to acquire and there simply are not enough 9 percent tax credits for the high need.

CLPHA urges Congress to expand the LIHTC allocation authority by 50 percent, and allow targeted housing tax credits for public housing recapitalization. These targeted tax credits would be designated through a national set-aside, separate from the state allocation and distribution pool of housing tax credits, thereby eliminating the need for competition from state agencies.

Other Benefits

There are also significant ancillary benefits from investing in public housing infrastructure. Public housing creates jobs and acts as an economic generator by leveraging public and private resources to increase resident earnings, contribute to local tax revenue, and support job creation and retention. An independent study confirmed that for every $1 spent on capital funding, an additional $2.12 is generated in regional economic activity. Under the last infrastructure bill, $4 billion in Capital Funds generated over $12.5 billion in economic activity. Per $1 million spent, public housing outpaces other sectors when it comes to job creation and generating economic activity.

However, a lack of affordable housing has been shown to negatively impact economies. Researchers estimate that the growth in GDP from 1964-2009 would have been 13.5% higher if families had better access to affordable housing. This would have led to a $1.7 trillion increase in total income, or $8,775 in additional wages per worker. Overall, the shortage of affordable housing in major metropolitan areas costs the American economy about $2 trillion a year in lower wages and productivity. High housing costs constrain opportunities for families to increase their earnings, causing slower GDP growth; and since 2000, rental costs have risen more quickly than renter's incomes.

In addition to economic benefits, healthy and stable housing also improves important markers of family and child well-being. HUD healthy home programs have improved physical housing quality and controlled for hazards that contribute to poor health in over 370,000 units. As a result, researchers estimate that 265,000 fewer children under five have contracted blood poisoning from in-home toxin exposure.

Since 1999, HUD has invested over $40 million in asthma control initiatives, resulting in at least $212 million in health care cost savings. Stable, affordable housing can also support family stability that is essential for healthy child development. A recent study offering housing vouchers to homeless families found that voucher receipt improved adult and child mental health and reduced the risk of future homelessness episodes.

CLPHA Members

There are numerous instances among CLPHA members where infrastructure investments have made a positive impact on the people, communities and physical facilities where they live and work. A snapshot of examples include Seattle, WA where the housing authority partnered with a national non-profit to create a Wi-Fi infrastructure with access for over 2,000 units; Houston, TX where the housing authority initiated a portfolio-wide conservation initiative to reduce energy consumption by 20%, resulting in $1 million in annual savings; Baltimore City, MD where public-private redevelopment financing for 26 public housing properties resulted in preservation of 4,000 units; Boston, MA where the housing authority created a 10,000 sq. ft. health center to help seniors & individuals with disabilities age in place; and Yonkers, NY where the housing authority built a deep well geo-thermal system at a senior site, increasing energy efficiency by 30%. An investment in infrastructure for public housing not only improves the stock of hard-built facilities but is an investment in individuals, local communities, and the economy.

CLPHA applauds the leadership the Financial Services Committee has shown in supporting housing is infrastructure and urges the Committee to consider and favorably report the "Housing is Infrastructure Act of 2019" to the full Congress for enactment.

Thank you for the opportunity to submit our views for the record, and we ask that you give them your full consideration.

Sincerely,

Sunia Zaterman

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CUNA

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April 29, 2019

The Honorable Maxine Waters,
Chairwoman
U.S. House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
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The Honorable Patrick McHenry,
Ranking Member
U.S. House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairwoman Waters and Ranking Member McHenry:

Thank you for holding the hearing entitled, "Housing in America: Assessing the Infrastructure Needs of America's Housing Stock." The Credit Union National Association (CUNA) represents America's state and federal credit unions and the 115 million members that they serve.

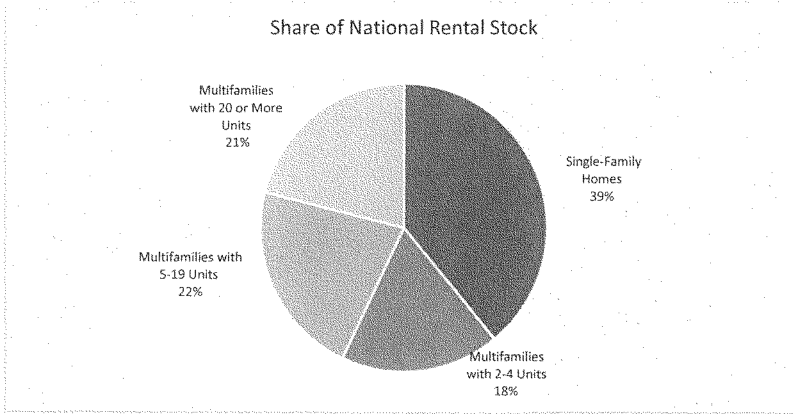
Credit unions play an increasingly important role in the housing finance market and, as a result, have a vested interest in ensuring an adequate supply of housing stock. Many credit union members, throughout the United States, live in communities where the nation's housing stock has become more limited and unaffordable. In fact, according to a recent analysis by the Joint Center for Housing Studies of Harvard University,[1] "[o]f the 93 large metros tracked by Zillow, only one had a for-sale inventory of more than 6.0 months in 2017."[2] Additionally, "[b]etween 2000 and 2017, real prices for the nation's lowest-cost [for-sale] units soared nearly 80 percent, compared with 28 percent for highest-cost units."[3]

This shortage in affordable for-purchase housing stock has led a growing number of credit union members to seek out affordable rental-housing options. As not-for-profit, financial cooperatives with a mission of helping those of modest means, credit unions are both eager and willing to respond to this reality and the changing needs of their members and communities. Unfortunately, statutory constraints have made it extremely difficult—if not impossible—for most credit unions to help fill the affordable rental housing void.

Under existing law, credit unions are subject to a statutory cap that limits most to lending no more than 12.25% of their assets to businesses.[4] However, of the available rental stock that currently exists in the United States, approximately 61 percent is considered multifamily with 2 or more

[1] State of Nation's Housing 2018, Joint Center for Housing Studies of Harvard University, *available at* https://www.jchs.harvard.edu/sites/default/files/Harvard_JCHS_State_of_the_Nations_Housing_2018.pdf (last accessed Apr. 26, 2019).
[2] *Id.* at 10.
[3] *Id.* at 12.
[4] *See* 12 CFR § 723.8 (a).

units.[5] Until just last year, credit union financing of multifamily housing units was subject to the member business lending cap.



Source: Joint Center for Housing Studies of Harvard University (America's Rental Housing 2017).

The recent enactment of the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 modified the Federal Credit Union Act to exclude from the member-business lending cap "[a]ny loan that is fully secured by a lien on a 1- to 4- family dwelling".[6] This change is an important step toward credit unions fulfilling their mission and assisting our members in obtaining affordable rental housing. We are grateful to both Congress and the Administration for recognizing the need to eliminate the impediment to credit unions in this area. Moreover, we look forward to reporting back to Congress on how credit unions have been able to increase their financing in the 1- to 4- family dwelling space as a direct result of these changes.

For the remaining multifamily units, however, the member business lending cap continues to serve as a substantial barrier to credit unions seeking to serve their members and communities. The explanation for why lies in the math.

For example, a 2017 Study by the Terner Center for Housing Innovation at the University of California Berkeley found that the cost of building a 100-unit affordable project in California has increased to approximately $425,000 per unit.[7] Yet, 4,991 of the 5,530 credit unions currently operating in the United States—that's more than 90 percent—have $500 million or less in total

[5] America's Rental Housing 2017, Joint Center for Housing Studies of Harvard University, *available at* https://www.jchs.harvard.edu/sites/default/files/03_harvard_jchs_americas_rental_housing_2017.pdf (Last accessed Apr. 27, 2019).
[6] Pub.L. 115–174.
[7] Terner Center Research Series: The Cost Of Building Housing, available at https://ternercenter.berkeley.edu/construction-costs-series (Last accessed Apr. 26, 2019).

assets.[8] As a result, the $42,500,000 cost of a single 100-unit multifamily, affordable housing project in California would consume **85%** of the total funds available to a credit union for **all member business loans** under the current statutory cap of 12.25 percent. We hope this example shows how the statutory cap constraint, when combined with cost realities and safety and soundness considerations, is working in a way the prohibits credit unions from moving broadly into the multifamily market to assist the nation in producing more affordable rental housing stock.

Conclusion

Credit unions are committed to not only serving our members, but also serving our communities. As Congress looks for solutions to the problems surrounding this nation's increasingly limited housing stock, we hope that it will recognize the potential for credit unions to help alleviate the challenge by revisiting the arbitrary statutory cap that limits most credit unions to currently lending no more than 12.25% of their assets to businesses.

On behalf of America's credit unions and their 115 million members, thank you for your consideration of our views on this important issue.

Sincerely,

Jim Nussle
President & CEO

[8] *See* NCUA Releases Q1 2018 Credit Union System Performance Data, *available at* https://www.ncua.gov/newsroom/news/2018/ncua-releases-q1-2018-credit-union-system-performance-data (last accessed Apr. 26, 2019).

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The Honorable Maxine Waters
Chairwoman
House Financial Services Committee
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Patrick McHenry
Ranking Member
House Financial Services Committee
U.S. House of Representatives
Washington, D.C. 20515

5/6/2019

Re: Housing in America: Assessing the Infrastructure Needs of America's Housing Stock

Dear Chairwoman Waters and Ranking Member McHenry,

On behalf of Enterprise Community Partners, I offer my thanks to the committee for holding the April 30 hearing "Housing in America: Assessing the Infrastructure Needs of America's Housing Stock." As the committee heard from its panel of expert witnesses, the nation's stock of affordable housing is equally as important to build and maintain as roads, bridges, and other physical infrastructure. America's existing housing supply is a long-term asset which must be maintained before its quality suffers further from years of financial neglect. Just like improving a municipal water system, investments made in affordable housing pay dividends for all members of the community, driving economic growth, providing access to opportunity, and reducing health care costs for individuals and the government. For decades, the United States has invested hundreds of billions of dollars in the nation's physical housing infrastructure. Appropriating additional money now to protect that investment is effective policy and economically sensible asset management.

Enterprise is a leading provider of the development capital and expertise it takes to create decent, affordable homes and rebuild communities. Since 1982, we have raised and invested $43.7 billion in equity, grants and loans to help build or preserve nearly 585,000 homes. In our experience, well-designed homes can lay the foundation for successful neighborhoods for decades after the new units are placed into service. The nation's affordable housing shortage can and must be addressed on both ends—by incentivizing the production of new units, and by making funds available to keep older homes from becoming uninhabitable and being lost to obsolescence.

The draft bill proposed by Chairwoman Waters, the "Housing is Infrastructure Act of 2019," takes a robust step towards addressing the nation's extensive housing needs. As the committee heard, due to years of neglect, the public housing capital needs deficit is now estimated to be in excess of $50 billion dollars. This shortfall leads to very real negative consequences in the lives of the most-vulnerable Americans. For example, children and adults develop respiratory issues when apartments are infested by pests and mold. Sometimes, the consequences for poor maintenance can be fatal—carbon monoxide leaks have killed at least 13 public housing residents since 2003.[1]

[1] Suzy Khimm, "'How Many More People Have to Die?' Carbon Monoxide Kills Two More in HUD Housing". NBC News, May 3, 2019.

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Often, the medical costs incurred by these low-income residents are passed on to state and federal healthcare programs. If the federal government prioritizes an upfront investment in public housing in infrastructure legislation, many of these health issues could be prevented, reducing both the financial and human cost of environmentally-caused illness. Enterprise applauds the proposed bill's inclusion of $70 billion for the Public Housing Capital Fund, which would remain available until expended. Such an investment would make available the resources so desperately needed to protect the nation's most vulnerable children and families by ensuring that their homes are healthy and habitable. In the words of Orlando Cabrera, former assistant secretary for Public and Indian Housing under President George W. Bush, "Public housing is an invaluable and long-ignored national asset that desperately needs Congress's support to change and better serve our nation's communities."[2] Substantial public housing infrastructure already exists, but the maintenance and repair backlog cannot be fixed through the annual appropriations process without making serious sacrifices elsewhere. For this reason, the proposed injection of funding into the Public Housing Capital Fund is excellent policy.

The draft bill would also set aside $5 billion dollars for the Pre-disaster Hazard Mitigation Program, a crucial step towards protecting the nation's infrastructure investments from the threat posed by climate change and natural disasters. As I testified to this committee's Oversight and Investigations Subcommittee on March 26 of this year, these investments are worthy because mitigation initiatives save $6 dollars for every dollar spent.[3] Funding for pre-disaster mitigation protects American lives and saves taxpayer dollars, and I thank the committee for including it in the proposed bill.

In addition to the committee's laudable focus on preservation, Enterprise urges Congress to continue to examine methods that would spur production and increase the supply of affordable housing. During the hearing, committee members and witnesses discussed potential vehicles for investing in both preservation and production. Enterprise supports a number of these proposals, including a special round of appropriations for the national Housing Trust Fund (HTF). This money would supplement the annual funding that the HTF receives from Government Supported Enterprises (GSEs) and provide the HTF with the resources and certainty it needs to continue its important work. Furthermore, as proposed this $5 billion appropriation would be available until expended, giving the program important reserves in the event of an economic downturn that would interrupt the payments it receives from the GSEs.

Furthermore, we encourage the Chair, Ranking Member, and committee to provide appropriated dollars for the Capital Magnet Fund (CMF) in the Housing is Infrastructure legislation. CMF is a public-private partnership that uses flexible federal funds to attract private investment into communities for affordable housing and economic development. The program provides funding that non-profit developers and lenders cannot find elsewhere—funding to do pre-development work, create revolving loan funds, establish loan loss reserves, and provide loan guarantees—all critical pieces of affordable housing and community development. In order to maintain close to the 65-35 split of funds between HTF and CMF as authorized in the Housing and Economic Recovery Act of 2008, Enterprise requests the committee include $2.5 billion in funding for CMF in the legislation.

Enterprise also encourages the committee to include a $5 billion investment in the Home Investment Partnerships Program (HOME) in the infrastructure legislation, a suggestion made at the hearing by Ms.

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[2] Orlando Cabrera, "Trump's Plan to Cut Public Housing is a Mistake for America". The Hill. June 20, 2017.
[3] National Institute of Building Science, https://www.nibs.org/page/mitigationsaves.

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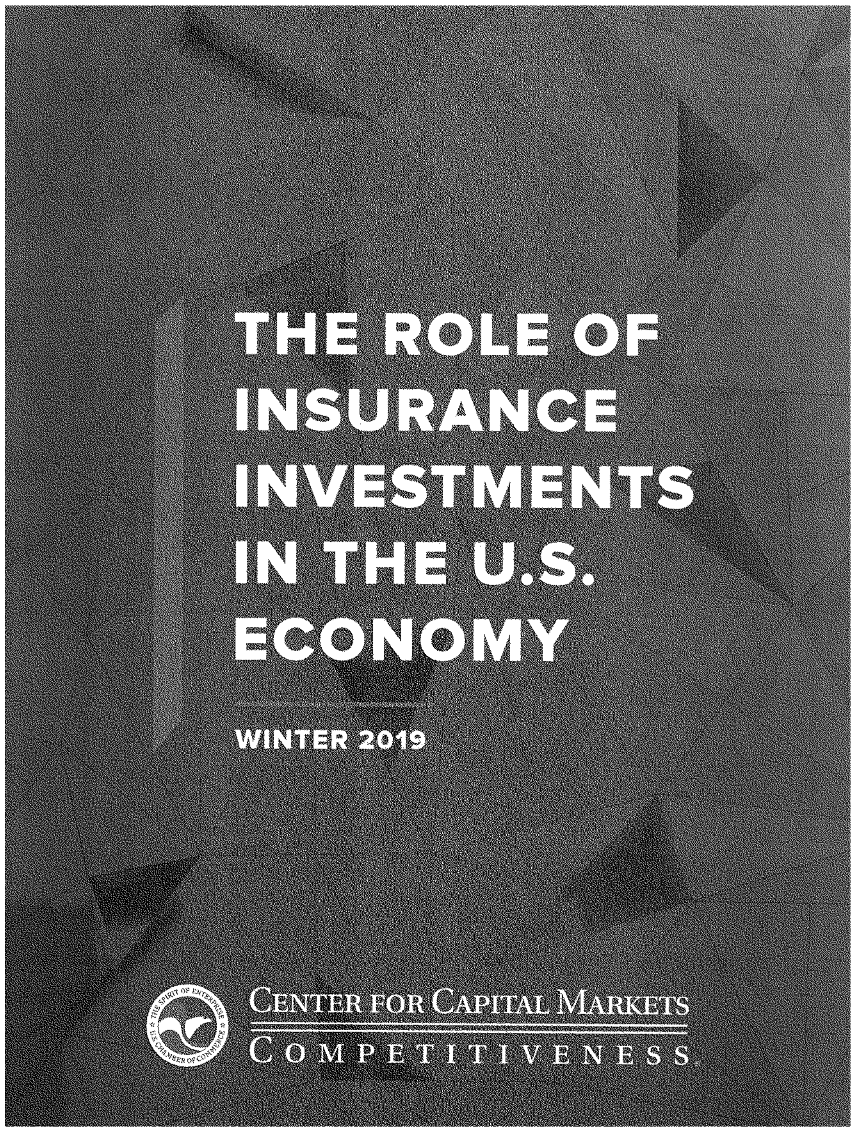
Adrianne Todman of the National Association of Housing and Redevelopment Officials. The HOME Program offers flexible financing at the discretion of local Participating Jurisdictions, making it well suited to meet the unique needs of communities across America. We also strongly support the comments of Mr. Steven Lawson from the National Association of Home Builders, who urged Congress to increase the Low-Income Housing Tax Credit (LIHTC) program, citing the fact that it is one of the most important programs driving the production of affordable housing nationwide.

Enterprise again thanks the committee for its close attention to this important issue, and strongly supports efforts from lawmakers to include housing in any broader negotiations around infrastructure spending packages.

Sincerely,

Marion McFadden
Senior Vice President for Public Policy
Senior Advisor for Resilience
Enterprise Community Partners



THE ROLE OF INSURANCE INVESTMENTS IN THE U.S. ECONOMY

WINTER 2019

CENTER FOR CAPITAL MARKETS COMPETITIVENESS

CENTER FOR CAPITAL MARKETS
COMPETITIVENESS.

This report was prepared by the U.S. Chamber of Commerce. Ernst & Young LLP (EY) assisted with market research and provided objective data analysis in connection with this report.

TABLE OF CONTENTS

EXECUTIVE SUMMARY

U.S. insurance companies finance long-term improvements in the U.S. real economy that drive much-needed municipal infrastructure investments, support developers as they improve and construct commercial and multifamily properties, help farmers purchase needed land, buildings, and equipment, and fund a wide variety of business activity. As a large and important part of U.S. capital markets, insurers fill a vital role as institutional investors with a unique investment strategy. By investing policyholder premiums in anticipation of future claims, U.S. insurers deploy capital focused on longer-duration, relatively lower-volatility investments. These investments support businesses, households, and local governments and are an important source of stability to financial markets.

U.S. insurance companies have a unique business model that creates a distinct set of investment criteria. Specifically, U.S. insurance companies aim to invest in longer-duration, lower-risk assets. The long duration of their investments is used to pay off claims that are expected far in the future. As a result, U.S. insurance companies invest for the long term. This results in insurance companies holding longer-term positions than other investors. As a result, insurance companies are able to hold positions in illiquid investments and capture a "liquidity premium"—ensuring investment in longer-term, positive-return projects.

U.S. insurance companies also play a stabilizing role in capital markets. Their current assets are roughly $5.8 trillion as of December 2017 and they make up a sizable share of asset classes such as corporate bonds (21%) and municipal bonds (20%). Within these asset classes they are able to uniquely provide liquidity as a result of their fundamental underlying business model[i]. For example, U.S. insurance companies invest in bonds that trade less frequently, and their long-term investment horizon stands in marked contrast to the shorter investment holding period observed in public equity markets.

The unique investment strategy of insurance companies results in tangible, long-term projects being finance these firms and, indirectly, by policyholders. For example, U.S. insurance investments in education projects through municipal bond purchases could build about 1,000 elementary schools every year. Likewise, their annual investments in municipal bonds used for transportation projects could build a road from Washington, D.C., to Los Angeles every year. Their current holdings of mortgage-backed securities correspond to roughly 2 million mortgages, and life insurers' public corporate bond investments alone funded about $120 billion of business investment in needed plants, equipment, and other capital expenditures in 2017.

Across other asset classes, insurers provide approximately 12% of nongovernment funding for U.S. farm loans and hold about 15% of all commercial and multifamily debt ($468 billion).

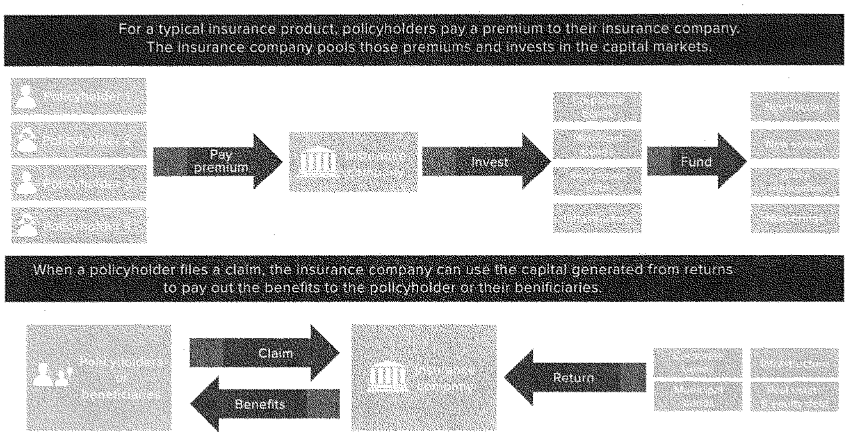
i. This paper is not intended to be a complete analysis of systemic risk considerations as it relates to the insurance sector.

To summarize, U.S. insurance companies invest for different purposes than other institutional investors. They are primarily concerned with matching long-term liabilities and, as a result, hold a different portfolio. They play a significant and important role across capital markets and within specific asset classes. Their focus on the long term and their ability to provide liquidity to illiquid asset classes allow them to stabilize capital markets. They are able to invest much-needed capital into important sectors of the real economy of the U.S., such as municipal education and infrastructure projects, investment in U.S. businesses, and credit to the U.S. homeowner through their real estate investments.

INSURANCE INVESTMENT STRATEGIES

Insurance companies invest in a unique set of assets as a direct result of their business model. Thus, any discussion of the overall impact of the investments of insurance companies must begin with the fundamental business model that drives their unique investment strategies. The basic business model of an insurance company involves receiving a steady cash inflow from policyholders in the form of premiums that, over time, are allocated internally and flow to operating expenses, new investment assets, and payouts for claims (Figure 1). Thus, policyholder premiums are used, in part, to invest in assets that generate returns, which ultimately are used to pay future claims.

Figure 1: Insurance companies' business model



Source: EY Analysis

INSURANCE TYPES

Life insurance companies provide protection against risk of premature death, long-term illness or disability, and people living past their savings. For each product, life insurance companies are able to project claims through the lifetime of the product. Insurance companies must make investments that will supplement reserve capital with sufficient returns to pay these expected claims through the entire duration of the insurance product. These investments are statutory requirements—insurance companies are required to hold capital reserves in order to sufficiently fund expected liabilities.

Life insurance companies are focused on ensuring a steady stream of long-term income to pay for future liabilities that are matched against that asset. These liabilities tend to be long term and illiquid in nature, and this allows insurance companies to invest in assets that match this profile. As a result, these companies are the leading investors in corporate bonds, and they also rely on other mortgage-backed securities to provide the income streams needed to cover liabilities. They are also large investors in commercial real estate mortgages. In each of these asset classes, they receive a predictable stream of income to offset their predictable stream of liabilities. They have limited exposure to more liquid assets, such as U.S. treasuries, public equities, and cash, often investing less than 10% of their portfolio in these assets.

Property and casualty (P&C) insurance policies are generally held for shorter periods of time than life insurance, and liabilities are relatively less predictable. The volatility means that P&C companies must be ready to satisfy claims at short notice and, as a result, tend to be less leveraged than their life insurance counterparts.

LIFE INSURANCE PRODUCTS

Life insurance companies offer both life insurance and annuities. A typical life insurance product will require periodic premium payments from the policyholder to purchase coverage. In exchange for premium payments, an insurer provides a lump-sum payment, known as a death benefit, to beneficiaries upon the insured's death.

The two most common life insurance products are term (which covers a set number of years) and whole life (which covers the life span of the insured). Whole life provides beneficiaries a predetermined benefit upon the death of the insured. These policies can carry a cash benefit that allows the insured to withdraw (or surrender) a certain portion of the accumulated premiums (and earnings). Term life is the simplest form of life insurance. It pays out if the insured passes away during the term of the policy, which is usually one to 30 years. In certain cases, term life policies can be converted to whole life. With both, insurers receive a steady stream of income from premiums, then pay a lump sum upon the death of the insured. Annuity policyholders have the option to annuitize and receive guaranteed monthly payments, or to keep their assets accumulating and withdraw as needed.

With an annuity, consumers can purchase guaranteed lifetime income in either a single payment or with multiple payments, depending on the type of annuity. You can choose to receive income from an annuity immediately or at a later date. Payments can be in lump sum, in a series of payments for a specified period of time, or as guaranteed payments for the life of the policyholder.

Annuities protect the insured from outliving their savings. With longer life spans, Social Security benefits are often insufficient for meeting retirement income needs.

P&C INSURANCE PRODUCTS

P&C insurance companies provide protection from the financial impact of risks such as the destruction of property from flooding, work injury, and theft. Policyholders make periodic premium payments in exchange for protection against these risks, and should an event come to pass, benefits are paid out by insurance companies.

That being said, P&C companies manage the uncertainty through the pooling of policyholders, as pooled liabilities are more predictable. Across their products, there is a large enough volume of customers that insurance companies are able to predict the number of policyholders that typically file a claim, even if they aren't able to identify which policyholders will need benefits. Their ability to accurately estimate the number of potential claims helps them project liabilities in a similar manner to life insurance companies.

Even though the expected durations are shorter than those of life insurance companies, P&C insurance companies have longer investment horizons than most other institutional investors. Like life insurance companies, P&C companies want to limit credit risk and ensure steady streams of investment income to offset future liabilities. However, P&C companies' ability to take advantage of tax-exempt assets has led to a higher allocation to municipal securities. The tax-exempt nature of municipal bonds provides three financial benefits for P&C companies: the reduced (or exempt) tax obligation on interest generated means that P&C companies have lower tax bills and can worry less about managing their income stream to manage the potential tax obligations. The tax-exempt nature of municipal bonds also allows P&C companies to capture yields that would otherwise be lower on taxable corporate bonds of a similar credit risk. Finally, the less-predictable nature of P&C obligations requires more active asset turnover to manage claims. Without the exempt status, the tax obligations generated by higher transaction activity to satisfy these claims would impact profitability. The Tax Cuts and Jobs Act of 2017 has adjusted these benefits

OWNERSHIP TYPES

The ownership structure of an insurer also plays a role in determining the investment strategy. There are two types of insurance ownership structures: mutual companies and public stock companies. Each type must satisfy its own unique requirements.

Mutual companies are private insurance companies that are owned by their policyholders. Any excess profits earned by the company are either retained and invested back into the company or paid out to policyholders through dividends. As there are no outside investors, mutual companies are less subject to short-term reporting requirements.

Public/stock insurance companies are owned by investors who acquire stakes in the company through the publicly traded markets. As a result, they must satisfy a broader set of stakeholder responsibilities: quarterly financial reporting requirements to the investor community as well as insurance regulatory responsibilities. This mandate drives investment decision-making.

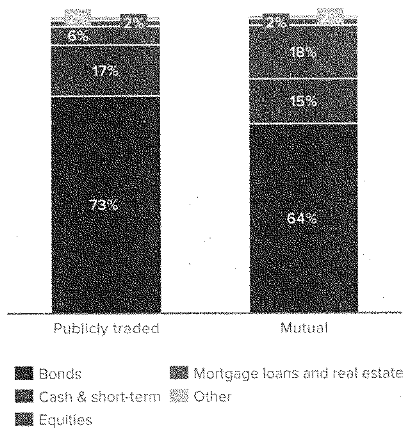


Figure 2:
Mutual and publicly traded life and P&C insurance companies' average asset allocations,
2017

Source: SNL (S&P Market Intelligence), EY Analysis

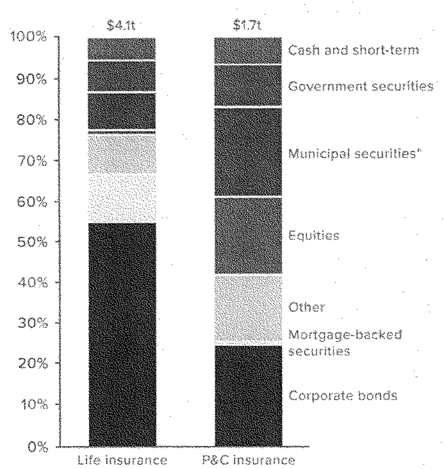


Figure 3:
U.S. life and P&C insurance companies' asset allocations,
2017

*Municipal securities includes states, territories & possession, political subdivisions, special revenue, and public utilities bonds

Source: SNL (S&P Market Intelligence)

INVESTMENT STRATEGIES

With both life and P&C insurance companies facing predictable liabilities over a long duration, their investments are focused on assets that can effectively pay for future liabilities for the entire duration of the policies provided by the company.

Insurance companies' investment strategies are centered on four key criteria:

1. **Duration matching**
   Assets need to match projected liabilities for insurance companies, which means investments are typically longer-term. This matching ensures investment income is available to pay all projected liabilities, even those 10 years or more in the future. As a part of the duration-matching principles used by insurance companies, they are typically buying and holding their investments, including more liquid assets such as a residential mortgage-backed security (RMBS) or corporate bonds.

2. **Low credit risk**
   Insurance investments are focused on managing credit risk. Many insurance companies invest in alternative asset types, but these investments are often structured to limit credit risk exposure. Insurance companies cannot risk investment losses that would hinder their ability to pay out future liabilities. Thus, there are specific requirements that they invest in assets which will equip them to repay policyholders in the long term.

> "Our first question when we look at a specific asset or even an asset class is: How does it fit with our asset and liability matching and our credit risk? Everything is viewed through that lens."
>
> – Publicly Traded Life Insurance Company

3. **Diversification**
   Insurance companies want to build a diverse portfolio that includes a variety of asset types, levels of liquidity, and sector focus. A diverse portfolio should provide insurance companies a stable flow of cash in a wide variety of market conditions.

4. **Optimize capital redeployment**
   As a result of the business need for long-term returns, insurance companies are required to hold capital against their investment portfolio. Risk-based capital (RBC) regulations determine how much capital is to be held against each asset that an insurer invests in. The riskier the assets, the more capital is required to be held in reserve to offset potential losses.

In practice, RBC requirements are determined by looking at asset risk, underwriting risk, and other risks that vary by asset class. Even within an asset class, the risk of specific assets determines the capital required to be held. For example, a BBB corporate bond will have a higher capital requirement than an AAA bond, as it has been deemed riskier.

In terms of investment strategy, capital requirements limit investment in more volatile products. This leads companies to focus on fixed-income products instead of equity. For example, less capital is required to be held in the case of a commercial real estate loan compared to a real estate equity investment, even if the amount of money invested is identical. As a result, insurance companies, especially smaller companies, put more of an emphasis on commercial mortgages instead of commercial real estate equity. This type of decision-making is true across asset classes as insurance companies look to balance yield and capital requirements.

TRENDS IN INVESTMENT STRATEGIES

Given the close connection between the fundamental business model of an insurer and its investment strategy, the overall approaches of U.S. insurers have remained largely consistent over time. That being said, there have been a few notable recent trends that have had an impact on the go-forward investment strategies of U.S. insurers as they compete in the current low-yield environment.

The macroeconomic environment over the past 10 years has been marked by low interest rates. With the Federal Reserve funds rate at historic lows, insurance companies struggled to find assets that could provide the required yield to offset future liabilities. Thus, insurance companies began to look for alternative asset classes that could provide high returns without requiring excessive credit risk.

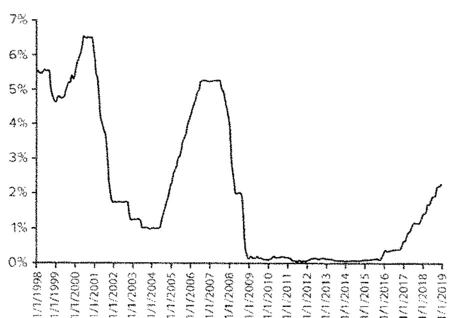


Figure 4:
Effective U.S. federal funds rate, *1998-2018*

Source: FRED: Federal Reserve Economic Data

WHAT IS LIQUIDITY?

The term "liquidity" can be applied in several ways depending on the context. Asset liquidity describes how quickly an asset can be bought or sold without affecting the price of that asset. The more easily traded an asset is, the more liquid it is considered. Cash is the most liquid asset available, while illiquid investments include real estate and venture capital. Market liquidity describes the extent to which assets can be bought and sold at stable prices in that venue. Funding liquidity, on the other hand, describes the ease with which institutions can borrow or raise capital to finance their needs.

WHY ARE ASSET AND MARKET LIQUIDITY IMPORTANT FOR INSURANCE COMPANIES?

For insurers, it is important to hold liquid assets should there be an unexpected increase in the volume of claims. And liquid markets support their ability to transact in these assets efficiently. For P&C companies, holding a sizable volume of liquid assets is especially important as they need to be able to respond to an increased number of claims in a fairly short period of time. With recent natural disasters such as Hurricane Harvey and the California wildfires, large volumes of claims have required insurance companies to pay out billions of dollars. Absent a stable of liquid assets and liquid markets, they might not have been able to pay out these claims in a timely manner without incurring significant haircuts on their assets.

WHY IS FUNDING LIQUIDITY IMPORTANT FOR MARKETS?

Funding liquidity is important for market participants because it determines their ability to borrow efficiently to manage their operating and investing needs. Generally, companies need access to capital to finance capital investments, product development, and other growth efforts. If companies face difficulties accessing the funding they need, investments stall and growth stagnates. Several factors have limited traditional sources of funding, and substitutes, including insurance companies, have become vital for ensuring that companies get access to the capital they need to finance growth. Insurers play an important role of providing liquidity to markets as they hold a large, patient capital base and are willing to invest in longer-term projects. For example, private equity and private placement debt are examples of asset owners that rely on insurance companies to provide funding liquidity. The funding liquidity provided by insurers is especially important for organizations that are unable or unwilling to go to the public market for capital, or in less liquid asset classes where fewer capital providers exist.

While this low-yield environment could have created incentives for insurance companies to enter riskier markets and invest in lower-quality assets, most insurance companies maintained their focus on investment-grade assets and instead used their ability to provide liquidity to markets as a means of accessing excess yield.

Three asset classes have seen increased interest as part of the emphasis on finding yield through liquidity: middle-market private debt, commercial real estate loans, and infrastructure. In each of these markets, insurance companies are ideal partners, as they are able to provide liquidity in exchange for long-term illiquid assets. The increased focus on these three asset classes has coincided with the low interest rate environment, as insurance companies are no longer able to access the yield needed to support liabilities through the public bond markets, traditionally the most popular asset class for insurers. Insurance companies could invest in lower-quality corporate bonds to find yield, but market participants have indicated that this strategy has only been used minimally as the credit risk is too high. As a result, there has been increased investment in other asset classes.

The popularity of each of these asset classes can be seen in the growth of the markets over the past few years. Lending to participants in the midsize market has grown substantially in recent years, with direct lending growing from approximately $10 billion to $153 billion from 2006-2016. Six of the 10 largest investors in the market are insurance companies or pension funds.[1] Life insurance companies' investment in commercial mortgages grew 7.5% in 2016 and 8.4% in 2017 to a total of $422 billion in 2017.[2] Infrastructure has seen strong growth in the low-rate environment of the past few years as the number of North American infrastructure deals has grown from 318 in 2008 to 661 in 2016, with the average deal size increasing to $532 million.[3]

For each of these markets, insurance companies are not the only interested investors, but they are a critical, stabilizing component of each asset class due to the alignment of their investment strategy with the long-term nature, capital intensity, and illiquidity that characterizes these assets.

TAX IMPLICATIONS AND TRENDS

In 2017, comprehensive tax reform made significant changes to the U.S. tax code. The corporate rate permanently dropped from 35% to 21%. Additionally, the international system was reformed to more closely resemble our global competitors' territorial approaches. Further, several new anti-base erosion provisions, including GILTI (global intangible low-taxed income), FDII (foreign-derived intangible income), and a base erosion minimum tax (the base erosion anti-abuse tax, or BEAT) were enacted with this reform. Much work remains to be done on the regulatory front, particularly in the international arena, to completely understand the impacts of these provisions. The impacts of tax reform on the insurance industry vary based on things such as business lines and headquarters location. Additionally, until final rules are promulgated, the overall impacts of tax reform on the insurance industry will not be clear.

If insurers, and specifically P&C companies, choose to limit their investments in municipals going forward, it may have an impact on the market. At this time, however, demand for municipal bonds has kept up with previous years as they continue to provide low credit risk and strong relative yields. Investments in municipal bonds from insurance companies grew 1.7% to $745 billion in 2017, with market participants expecting a similar or fractionally smaller level of investment going forward. Municipal bonds are also seen as good investments for diversification purposes.

Another component of the new tax law that might affect insurers is the extension of the estate tax exemption through 2025 and the raising of the exemption to $11.2 million per person, thus limiting the need for tax-advantaged estate strategies through life insurance products. This could have an impact on the use of life insurance as an estate protection vehicle and increase the surrender rate of life insurance policies, which affects the duration matching and risk calculations associated with life insurance portfolios. However, the changes to the tax code are not expected to have a large impact on insurance companies' investment strategies.

U.S. INSURANCE INVESTMENTS: MACROECONOMIC CONTEXT

While U.S. insurance investors deploy a unique strategy based on their distinct business model, they also play an important role in a number of asset classes. U.S. life and P&C insurer investment assets were roughly $5.8 trillion as of December 2017. Life insurance companies accounted for about $4.1 trillion of these investments, and P&C insurance companies comprised the other $1.7 trillion. Between 2013 and 2017, the aggregate investments of life and P&C insurers steadily increased at a compound annual growth rate (CAGR) of 3.8% from about $5.0 trillion to roughly $5.8 trillion.

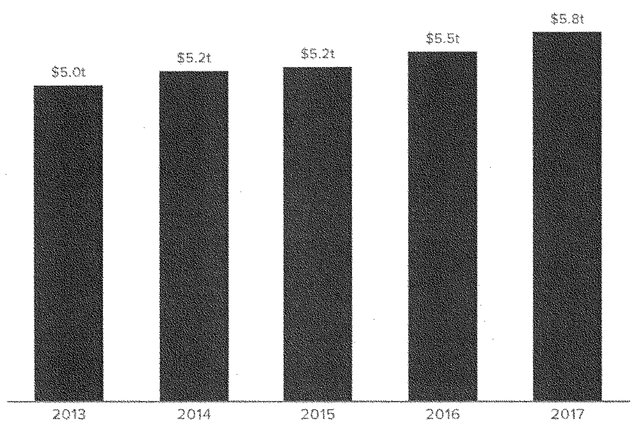


Figure 5: U.S. life and P&C insurance investments, *2013 - 2017*

Source: SNL (S&P Market Intelligence)

These investments are held in a variety of different asset classes. As displayed in Figure 6, bonds account for about 76% of total assets. Within bonds, corporate bonds account for 60%, with municipal securities at 17%, and mortgage-backed securities (MBS) at 11%. The remainder is in U.S. and foreign government securities. Stocks account for approximately 7% of total invested assets, and cash and short-term investments account for roughly 6%.

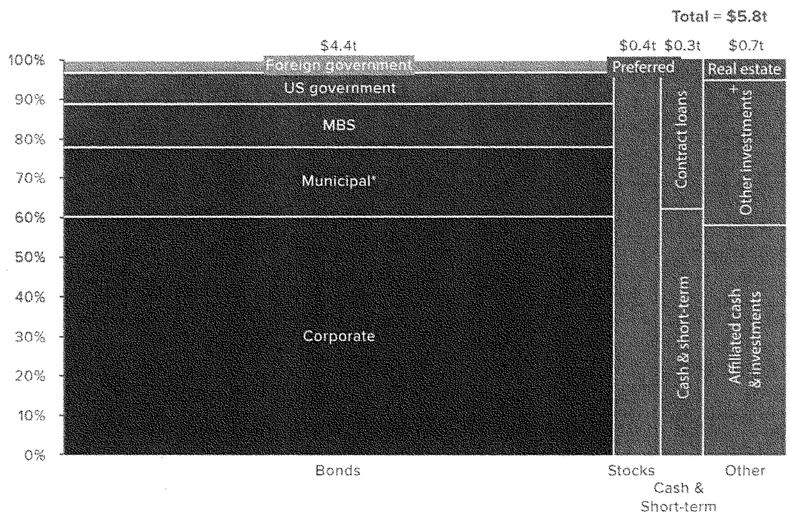
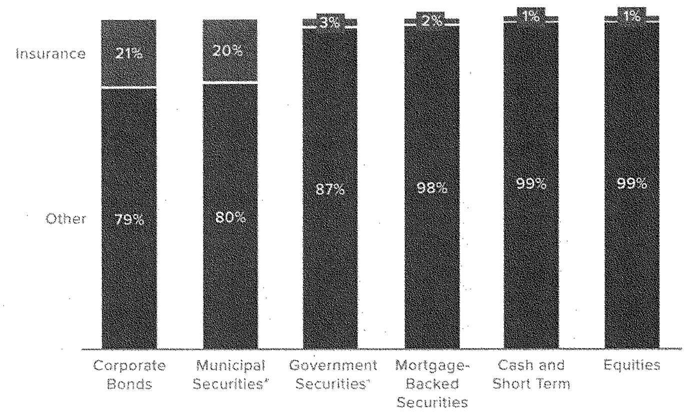


Figure 6:
Total U.S. invested assets, P&C and life insurance companies
2017 (dollars outstanding)

*Municipal securities includes states, territories & possession, political subdivisions, special revenue, and public utilities bonds
+Includes direct infrastructure, derivatives, and securities lending
Source: SNL (S&P Market Intelligence)

Regarding the role that life and P&C insurers play in the various asset markets, their investment assets represent 21% of the corporate bond market and 20% of the municipal bond market (Figure 7).

Insurance companies are also playing an outsized role within specific asset class sub-segments. For example, in the commercial real estate loan market, insurance companies account for about 16% of outstanding loans. In the farm mortgages market, insurers are the second largest nongovernment lender after depository institutions, controlling about 12% of the outstanding loans issued by nongovernment entities. Together with banks, government entities, and households, insurance companies support mortgages that help U.S. farmers buy and finance land and equipment. In the private placement debt market, insurance companies account for over 10% of the outstanding volume, and this figure is growing.



Total Insurance Assets	$2.7t	$0.7t	$0.5t	$0.5t	$0.3t	$0.4t

Figure 7:
U.S. life and P&C insurance companies' market share by asset class,
2017, (dollars outstanding)

Graph excludes roughly $0.7t in insurance assets that are categorized as "other."

*Municipal securities includes states, territories & possession, political subdivisions, special revenue, and public utilities bonds

˚Government securities includes securities lending

Source: SNL (S&P Market Intelligence), SIFMA, NYSE, MSRB

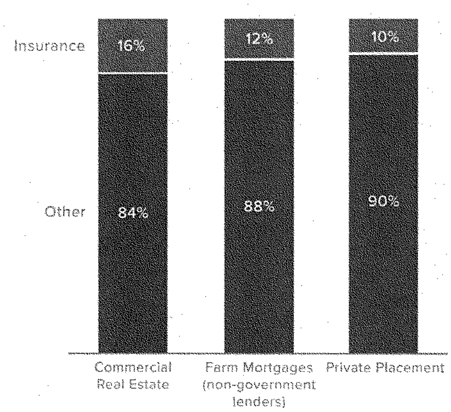


Figure 8:
U.S. life and P&C insurance companies' market share in relevant markets,
2017, (dollars outstanding)

For farm mortgages, Other includes U.S. depository institutions (banks) and households

Source: Federal Reserve; SNL, S&P Global, Mortgage Bankers Association (MBA)

Insurance companies invest funds differently than other types of investors. This is driven by the varying capital standards that are applicable to each type of investor. For example, the standards for insurance companies differ from those for pension funds, and, as a result, the latter tend to have more exposure to riskier assets, including equities (Figure 9). To manage their capital standards and achieve their objectives, insurance companies focus on asset classes that are lower-risk and that produce steady cash flow.

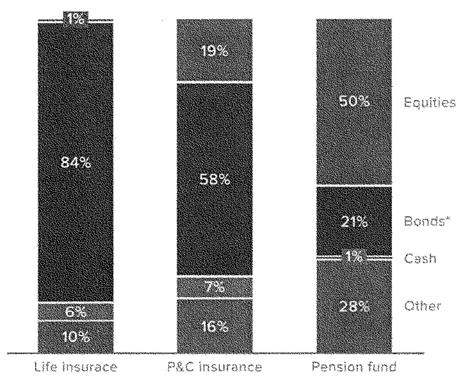


Figure 9:
Life insurance, P&C insurance, and pension fund investment allocations, *2017*

*Bonds includes government securities, mortgage backed securities, municipal securities, and corporate bonds.

Other includes real estate, other investments, and affiliated cash and investments.

Source: SNL (S&P Market Intelligence), Willis Towers Watson, EY Analysis

IMPLICATIONS OF U.S. INSURANCE INVESTMENT ON THE U.S. ECONOMY

Insurance investments have three major impacts on the U.S. economy. First, insurers play a unique role in the capital markets. As long-term investors able to take on additional liquidity risk, they are able to stabilize financial markets and prioritize longer-term growth. Second, insurers invest differently than other investors would, due to the long duration of their liabilities and a need to take fewer credit risks. These investment criteria result in a different asset allocation than U.S. households would pursue, and thus relatively more investments in asset classes such as corporate bonds or municipal securities. Finally, even within asset classes, insurers play a significant role in certain specific types of investments and projects. Digging into these specific investments demonstrates how insurance investments fund a variety of tangible projects in the U.S. economy. These projects help drive growth across the economy. For example, they fund infrastructure, homeownership, and needed business investment.

A. CAPITAL MARKET IMPACTS

In addition to supporting investments across a variety of asset classes and projects, insurers play an important role in financial markets thanks to their unique investment strategies. Insurers can provide additional stability and a longer-term investment view to financial markets.

CAPITAL MARKET STABILITY

As was demonstrated during the 2008 Great Recession, whenever a large group of financial market participants are unable to trade securities and other assets, it creates a "liquidity crunch" that can trigger business cycle downturns. Due to the nature of their investments and business model, insurers can help mitigate liquidity issues. Unlike banks, insurers hold illiquid liabilities on their balance sheets, are less subject to short-term deposit liabilities, and are largely standalone providers of capital. Within an insurer, there is smaller risk of a bank run or "contagion" effects caused by interrelated business activities[ii].

> "Insurance companies, especially life insurance companies, are financial institutions with longer-term liabilities than commercial and investment banks, and thus they have the capacity to adopt investment strategies with longer-term horizons. To the extent that they adopt such strategies and do not sell into falling markets when many other types of investors do, they are a stabilizing element of the financial system. Most parts of the insurance industry appear to have acted as a stabilizing element in this sense during the current crisis."
>
> – OECD, 2009

> "The financial crisis of 2008/09 has shown that, in general, the insurance business model enabled the majority of insurers to withstand the financial crisis better than other financial institutions. This reflects the fact that insurance underwriting risks are, in general, not correlated with the economic business cycle and financial market risks and that the magnitude of insurance liabilities are, in very broad terms, not affected by financial market losses."
>
> – International Association of Insurance Supervisors, 2011

ii. This paper is not intended to be a complete analysis of systemic risk considerations as it relates to the insurance sector.

"Here, though, the major relevant difference is that the funding structures of traditional insurers are generally much more stable than the funding structures of commercial banks, much less broker-dealers. A traditional insurance company's liabilities are largely composed of contingent claims based on the occurrence of specified events, such as the death of an insured person or the destruction of property. Because these claims generally cannot be accelerated, companies engaged in traditional insurance activities are less vulnerable to runs and, accordingly, to short-term pressures to sell assets into declining markets."

– Board of Governors of the Federal Reserve System

PROVIDING LIQUIDITY

By focusing on a longer-duration time horizon, insurers are able to find additional yield by providing needed liquidity to types of assets that trade less frequently. Providing additional liquidity is particularly important in the current macroeconomic rate cycle and for specific asset classes.

Insurers are willing to purchase bonds when those bonds have lower turnover. In fact, while insurers make up a small share (about 5%) of total transaction volume of the most-traded corporate bonds, insurance purchases make up a significantly higher percentage (about 22%) of the purchases of the least-traded bonds (see Figure 10). By purchasing these less-frequently traded bonds, insurers are able to provide liquidity to the bond market and ensure a healthy market for corporate bond trading.

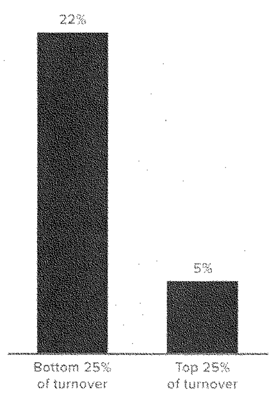


Figure 10:
Insurer's share of bond transactions volume by bond turnover,
2016

Source: Paulson and Rosen, 2016

Not only are insurers able to provide liquidity, they are also increasingly seeking out opportunities to do so. Finding opportunities to provide liquidity to the market has become a progressively more important part of their overall strategy in the low-interest-rate environment. Insurers need to find opportunities to capture yield without incurring additional credit risk. One way to do this is by investing in assets that trade less frequently. Investing in illiquid assets provides a way for insurers to capture additional yield while also providing the asset segment with market-making liquidity.

LONGER-TERM INVESTMENT HORIZON

There is an ongoing debate on the extent to which investors in financial markets are focused on a short-term investment horizon—and the extent to which this could result in worse management and investment decisions. The long-term nature of insurance investments makes them well-suited to mitigating the potential negative effects of short-term managerial decision-making.

Holding period data shows a steady decline in the average time that stocks are held by investors.[4] At the peak in the 1950s, equity investors held positions for an average of about 8 years. By 2016, this had fallen to about 8 months. This decline is fueled by an environment of quarterly earnings, sell-side research, and continuous financial media coverage. In this environment, market expectations and investor pressure could encourage leaders to take a short-term view of company strategy and neglect the deeper strategic thinking that drives durable success.

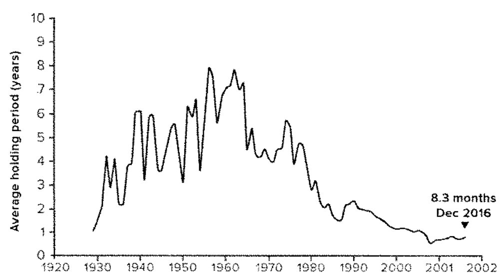


Figure 11:
NYSE average holding periods,
1929 - 2016

Source: MFS investment management

Unlike these investors, who are focused on realizing short-term gains on trades, insurers are among those institutional investors who are interested in receiving a return over 20-year or longer time horizons. Their limited allocation to stocks and greater emphasis on fixed income instruments support their investment time horizon as they look to provide funding for long-term capital expenditure and infrastructure projects—projects that create sustainable and tangible economic benefits to the capital markets and to communities. Thus, by deploying their patient capital accordingly, insurance companies help counteract any shift toward increased short-term thinking. Additionally, the long-term approach that insurance companies take can empower corporate leaders to make decisions that encourage investments on projects with long-term benefits, and support their financing.

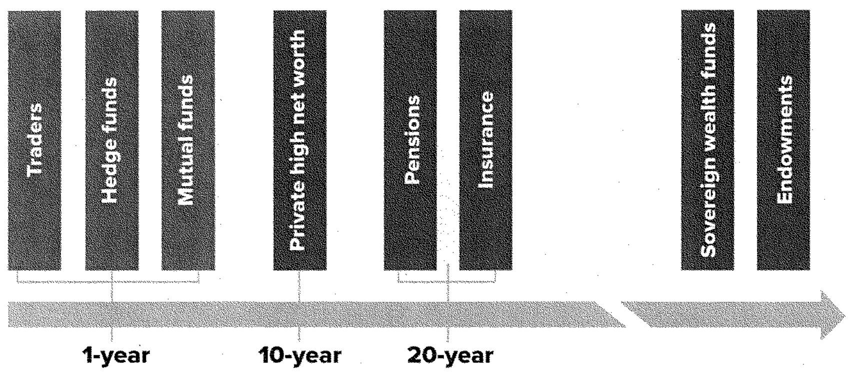


Figure 12:
Investment time horizon by investor type

Source: MFS investment management

B. APPROACH: IMPACT OF INSURER ASSET ALLOCATION

To gain an understanding of the impact that insurance investment decisions have on the overall U.S. economy, insurers' asset allocation was compared to the asset allocation of all U.S. households (see sidebar below). This provides us with a high-level framework to compare the impact of U.S. insurers' preferences versus that of premium-holders.

If insurers were instead investing using the investment preferences of U.S. households, about $3.5 trillion of corporate, municipal, and government bonds may be moved into other asset classes. This would depress prices and drive yields higher. In the absence of substitute buyers, yields would likely adjust upwards until they provide a compelling enough risk-return profile to drive investors away from other assets. In such a scenario, companies and municipalities would likely be more cautious about their capital expenditures as they look to minimize borrowing.

Certain investment assets would also gain investment if insurers invested like households. Stocks might be the main beneficiaries, receiving about $1.6 trillion of incremental investment under this counterfactual model. These assets would experience a demand shock and see their price rise. Other impacts may include additions to cash and short-term investments. Life insurance companies have a lower need for liquidity and therefore allocate a smaller portion of their portfolio to cash. A reallocation may result in a transfer of about $240 billion to cash holdings.

This hypothetical example demonstrates the impact of the investment strategies of insurers relative to other investor types. Insurers act as stewards of risk by making informed long-term investments. The demands of their business result in meaningfully higher investments in lower-risk, longer-term assets such as corporate, municipal, and government bonds. Thus, consumers are able to leverage the investment acumen and strategies of insurance investment teams to make prudent, long-term investments. Absent insurance companies to guide them, this exercise indicates that individuals may hold assets in an inefficient, less productive manner.

METHODOLOGY

In order to estimate the impact of an insurer's unique investment criteria, the asset allocation of life and P&C insurance companies was compared to that of U.S. households. This comparison demonstrated the extent to which insurers' investment strategies change the type of investments that are pursued.

While this provides some high-level context on the overall macroeconomic impact of U.S. insurance industry investments, it is important to note a few caveats. Firstly, this analysis does not take into account any pricing impacts that would result from insurers investing differently. This would likely mitigate some of the shifts in investment. Secondly, this also does not take into account the fact that parts of households' current asset allocation is in insurance itself. If households were to invest insurance assets themselves, they could be more likely to invest in relatively more conservative assets.

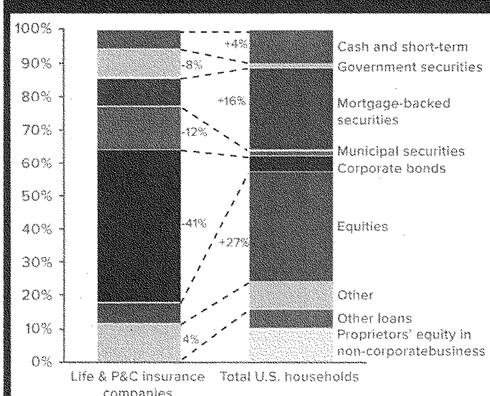


Figure 13:
U.S. life and P&C insurer assets reallocated to that of U.S. households

Source: SNL (S&P Market Intelligence), Federal Reserve, EY Analysis

C. PROJECTS AND INVESTMENTS IN THE REAL ECONOMY DRIVEN BY INSURANCE INVESTMENT

Insurance companies play a significant role in some specific projects and investments within asset classes. Mapping the relevant investments that insurers make within these specific investment types (Table 1) highlights the tangible economic activity that insurance investments fund.

Table 1:
Insurance company investments' impact on the real economy
Source: EY Analysis; see endnotes

Investment type	Investment/ project type	Description	Direct economic activity supported
Corporate debt	**Corporate bonds**	Debt instrument issued on public markets to finance expenses or fund growth projects	Roughly $120 billion in direct business investment; these funds can support construction and expansion of manufacturing facilities as seen through companies such as GM, Boeing, and Apple, which used corporate bonds to fund projects[5]
	Private placement	Debt instrument issued to qualified investors on a private market for funding purposes	At least $12.6 billion in gross output, based on small-business investment[6]
Corporate equity	**Publicly traded equity**	Equity asset on a public market offering ownership in a public corporation	Insurers have limited investments in public equity, but investments provide capital to support growth of these companies and the U.S. economy
	Private equity	Unlisted shares representing private ownership of a corporation	Approximately 30,000 full-time equivalent (FTE) positions[7]

Table 1: *Continued*

Investment type	Investment/ project type	Description	Direct economic activity supported
Real estate	**Mortgage-backed securities**	Debt security backed by a pool of mortgages available on the public markets	Originations of roughly 2.1 million mortgages in their current holdings of MBS[8]
	Non-performing/ Re-performing loan pools	Distressed loan with potential for recovery	Insurers provide liquidity to support wind-down of pools of non-performing loans from Great Recession
	Commercial and multifamily real estate loans	Customized financing for acquisition or development of commercial properties	About $2.7 billion in GDP driven from funding of new construction;[9] about 18,000 jobs from construction; on an industry-wide basis, insurers have committed $52 billion to $66 billion of new loans every year for the past four years (2013-2017)[10]
	Real estate equity	Private investment in real estate asset ownership	Insurers purchase, renovate, and operate commercial and multifamily real estate buildings in housing, office, industrial, and retail sectors; building improvements could drive additional real economic impact—every $1 of additional spending by insurance companies over previous owner equates to $2.64 in real economy[11]
Infrastructure	**Municipal bonds[iii]**	Debt issued by state/local entities on a public market to fund expenses and new investments	Education: 350 high schools or 1,000 elementary schools[12] Transportation: 2,300 miles of road annually, about 1% of all roads[13]
	Direct infrastructure/ private-public partnerships	Private financing to acquire, operate, and maintain a physical infrastructure asset alone or with partners	250,000-600,000 FTEs[14]
Agriculture finance	**Agricultural loans for land, building, and equipment**	Customized secured financing (loan) for agricultural use	530 farms or 6,100 farms' equipment[15]

iii. Municipal bonds include both taxable and nontaxable municipal bonds.

CORPORATE DEBT

Public corporate debt
Corporate bonds allow companies to finance various forward-looking projects as they look to grow their business. This capital can be used to fund operating expenses, invest in new projects, or simply retire outstanding debt. Corporate debt is also used to manage the capital structure of companies. A review of the top 20 bond issuers reveals a list of household companies, including banks, information technology, health care, and automotive.

As corporate debt is used for a variety of business purposes, some have an indirect impact on the economy, and some have a direct impact. For example, issuing corporate debt indirectly affects the economy through allowing companies to refinance their existing debt or repurchase shares to modify their capital structure. Corporate debt is also used to directly impact the economy through increased real business investment. As insurers currently hold close to $4.4 trillion in total fixed income, of which $2.5 trillion is corporate, the impact of their investments on the bond market and the overall economy is significant. Their absence would be felt greatly, as can be illustrated through a high-level comparison of the impact that the quantitative easing (QE) program had on the economy. Across multiple rounds, the Fed provided over $4 trillion in bond purchases that had the result of lowering bond yields, increasing prices, and generating GDP growth.[16] The withdrawal of insurers from this space would likely have a similar, but reverse, effect.

Separately, it is estimated that between 20% and 25% of newly issued corporate debt is used directly for new business investment.[17] This would imply that of the roughly $530 billion[iv] in corporate debt purchased by the life insurance industry, about $120 billion supported direct business investment in the economy. In 2015, 39% of total capital expenditures for U.S. businesses went toward the acquisition, construction, and preparation of structures.[18] This translates to roughly $47 billion contributed by insurance companies toward corporate building projects. The other 61% of total capital expenditures, or about $73 billion in insurers' investments, would be allocated to U.S. business equipment expenditures. That is, spending on apparatuses, furnishings, motor vehicles, office machines, or any other equipment with an expected life beyond five years.

Investments like these have helped to support numerous corporate growth projects.

In 2017, auto manufacturer General Motors (GM) invested $1 billion in U.S. factories, which helped create and maintain 7,000 jobs.[19] GM also invested $5.4 billion to modernize U.S. factories over the past three years.[20] This capital allowed for the investment into new equipment and helped retain nearly 2,000 jobs per factory in some cases. In 2009, airplane manufacturer Boeing bought a Charleston, South Carolina-based plant to produce the long-haul, mid-sized 787 Dreamliner jet for $1 billion, which helped to create thousands of jobs for that community.[21]

iv. In 2017, life insurance companies held roughly 6.6% of their bond portfolio in assets with a maturity of less than one year and about 25% in assets with maturities of one to five years. This amounts to an average of about $140 billion in corporate bonds that will mature in 12 months, and another $532 billion that will mature on a short-term basis. This maturity schedule supports the participation of insurers in new corporate bond issues

Apple spent $60 billion in U.S. manufacturing in 2018 across 9,000 suppliers.[22] This investment helped to triple Apple's job creation in the U.S. since 2011, increasing it from 600,000 to 2 million jobs across the country. Corporate bonds have allowed GM, Boeing, Apple, and other U.S. corporations to make large investments that have facilitated job creation and economic growth. As a result of their significant holdings in the corporate bond market, insurance companies have been able to help corporations make those needed investments.

Private placement debt

Private placements are debt securities issued by corporations that are exempt from Securities and Exchange Commission (SEC) registration requirements— purchased typically by private corporations, including family-owned businesses, that are more sophisticated than average retail investors. The private placement debt market is also a critical source of funding for corporations that prefer to raise capital privately without incurring public listing costs. These securities are only sold to sophisticated investors that can analyze and hold them. Insurers value these assets, as they offer a return premium to more liquid public bonds while also benefiting from additional covenants that private companies agree to as part of their debt offering.

Insurers are attracted to this market for a variety of reasons: The assets have a long time horizon, offer attractive yields, and carry risk that is in line with fixed-income investments of a similar profile. In 2018, the insurance industry accounted for close to $350 billion in traditional private placement securities, with life insurers accounting for 89% of this total.[23] Given the opportunities that private debt provides, its popularity with insurers has increased. Between 2010 and 2014, the allocation of privately placed bonds as a total of bonds has grown from 25% to 28%.[24]

Lower- and middle-market borrowers that have complex needs will also look to the private market for financing. Here, in the absence of traditional lenders, insurers have identified a unique opportunity. Between 2016 and 2017, assets under management (AUM) at private debt funds grew from $441 billion to $478 billion, with insurers accounting for 9% of this growth, or $3.3 billion.[25] If lent to small businesses, this amount would have led to roughly $12.6 billion in gross output for their local communities.

> "Both the middle-market debt arena and the income-financing transactions arena allow us to do that (lending) where there's clearly a need for capital. We can step in and capture a higher return than you would probably get in other markets. They are hard to do, and they're very bespoke with contracts and negotiations. It does add value for the larger (insurance) companies that have the capability to do it."
>
> – Publicly Traded P&C Insurance Company

CORPORATE EQUITY

Relative to other types of investors, traditional public equity is not a priority investment for insurers because of the volatility and the capital requirements associated with the equity market.

Even with their limited investment in public equity, insurance companies still play an important role in the corporate equity market through their investments in private equity. Private equity is an ideal asset for insurers as it offers long duration and high yields. At the same time, these insurers can structure investments to limit credit risk.

> "Private equity is still a very small part of our portfolio, and we tend to focus on buyout funds instead of venture because of the credit risk, but we think we can get intriguing returns compared to public equities."
>
> – Publicly Traded Life Insurance Company

Private equity has emerged as an increasingly popular alternative investment during the low-yield environment of the past few years, with 32% of investment decision-makers reporting that they are likely to maintain or increase their investments in private equity.[26]

While interest in private equity is growing, it is important to recognize that it is still a very limited portion of investment portfolios due to the capital charges associated with carrying any equity investment. For the most part, the insurers with investments in private equity tend to be the largest companies with the size to support the associated capital charges of equity investments.

However, even though investment is limited, the investments in private equity do have a substantial impact on the U.S. economy. Insurance companies make up an estimated 9% of U.S. private equity investment, translating to approximately $30 billion in 2017 investments. This $30 billion creates an estimated 30,000 jobs in the long term from their 2017 investments.

> "You tend to look at private equity and some other hedge funds on the longer end of the duration—but those are capital-intensive, so they're very expensive to an insurance company to carry. So, you got to get a tremendous amount of return just to cover the capital charges."
>
> – Publicly Traded Life Insurance Company

REAL ESTATE

Insurance companies have long seen real estate as a key investment opportunity because of its long duration and minimal credit risk. Real estate also provides opportunities to invest in both liquid and illiquid assets, helping companies manage their durations. Insurance companies invest in real estate three ways: though commercial and multifamily real estate loans, direct equity investments, and mortgage-backed securities (MBS).

Commercial real estate loans

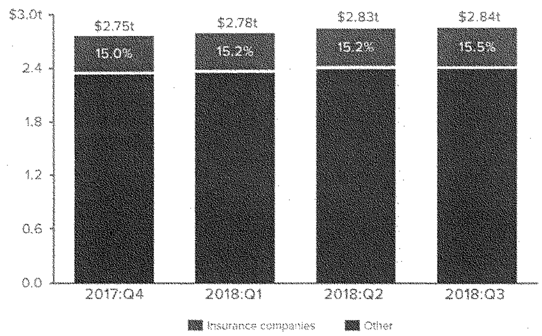


Figure 14:
Lender composition of U.S. commercial real estate loans, *2017 - 2018*

Source: CBRE

> "The insurance companies play a major role in the financing of the commercial real estate market in the United States. That's the point where if insurance companies step away, that would be a meaningful, meaningful shift."
>
> – Publicly Traded P&C Insurance Company

Commercial real estate loans are generally for long-duration real estate investments in large commercial properties. They share similar characteristics to bonds (stream of payments, interest rate sensitivity), while also exhibiting lower correlations with other asset classes that investors may hold in their portfolio. This makes commercial real estate loans well-suited for insurers as they can obtain a high-quality and steady income stream in a diversified manner. In addition, the flexible and bespoke structure of these loans position them perfectly to manage the different durations on an insurer's balance sheet. In the fourth quarter of 2017, life insurers alone held close to 15% of the $3.2 trillion of debt outstanding.[27] In 2017, life insurance companies originated over $60 billion of loans that helped support the acquisition of office, retail and industrial buildings across the U.S.[28] The sidebar on page 28 also outlines a few publicly available key investments made by large insurers.

In terms of direct economic impact from insurance companies in the commercial real estate market, it is helpful to separate out loans for new construction projects, which have more of a direct impact on the economy when compared to acquisitions of existing buildings. While insurance companies tend to limit new construction lending, some insurers offer "construction to permanent" loans for developers looking to construct and then operate a building. These loans provide funding for the initial construction period and convert into a traditional mortgage once the construction is over. Approximately 2% of commercial real estate loan originations from insurers are construction or construction to permanent loans.[29] This roughly $935 million in loans in 2017 helped create an estimated 18,000 jobs for the economy.[30]

This being said, the other 98% of commercial real estate lending still has an impact on the economy. The acquisition of commercial buildings helps support local real estate markets and indirectly creates demand for new construction and development.

REAL ESTATE EQUITY INVESTMENTS

Real estate equity investments provide a steady income and long-term return and bring stability to business communities across the country. Insurance companies often renovate and improve the quality of the commercial and multifamily spaces they invest in as landlords capture a steady stream of income through rent payments. At the same time, they are able to capture the long-term appreciation of the asset as property values increase over the 10-year or longer investment.

Recent acquisitions made by insurance companies include AIG's purchase of an office park outside Charlotte, North Carolina, for $114 million; MetLife's acquisition of a $100 million office building in suburban Boston and a $15 million renovation for the suburban Atlanta office park it purchased in 2013; and PGIM Real Estate's $600 million multifamily venture joint partnership with the Carroll Organization to acquire and support over 4,000 units of workforce housing across 13 properties in Raleigh-Durham, North Carolina; Ponte Vedra Beach, Florida; and Charleston, South Carolina.

> "Most of the big players in the space have large real estate origination teams and are doing both direct and participating lending with each other, as well as with some of the commercial banks. So, to keep going, you looked at probably half of Manhattan real estate is backed by insurance company debt underlying all those buildings."
>
> – Publicly Traded Life Insurance Company

Real estate equity
Another alternative to MBS purchases or commercial real estate lending is direct ownership of real estate properties. Here, insurers go beyond originating mortgages and take positions in real estate equity. Real estate equity provides multiple benefits to an insurer; it is long-term in nature, the asset has the potential to appreciate over time, and rental income from tenants can serve as a recurring payment stream similar to that of bonds. The approach that insurers take to their investing strategy will depend on the size of the asset to be acquired and their own capabilities. For smaller companies, it is complicated to purchase and hold real estate as an individual entity. This is due to the high capital charges and the upfront cost required to finance the purchase. As a result, smaller companies often use partnerships, participation programs, or joint ventures to access the real estate market. For large companies, direct acquisition and ownership is the easiest route to the market, and large insurers such as MetLife and Prudential are active in the purchase real estate market.

Mortgage-backed securities (MBS)
MBS are investments secured by one or multiple home mortgages. These investments receive ratings from credit rating agencies that assess the risk associated with the security. MBS provide a secondary market that allows large investors to lend capital to both individual homeowners and commercial and multifamily borrowers, allowing lenders to reach underserved communities and keep interest rates low. Insurers have investments in agency-issued MBS, commercial mortgage-backed securities (CMBS), and privately issued MBS.

MBS and CMBS provide steady income streams over a long duration, with limited risk for investors. They generally do not provide high yields, but they do act as a diversifier in portfolios. For the market, investors purchasing these assets help disperse risk and provide liquidity to lenders, and, ultimately, homeowners or building owners. Agency MBS and CMBS are generally low-risk and safe investments for many investor types.

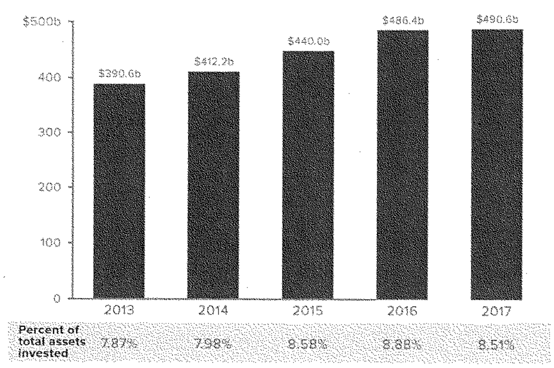


Figure 15:
U.S. life and P&C mortgage-backed securities investments, *2013 - 2017*

Source: SNL (S&P Market Intelligence)

In the agency MBS market, insurers participate in the Government National Mortgage Association (GNMA) space, where capital has supported Federal Housing Authority (FHA), Veterans Affairs (VA), and similar affordable loan programs. As of 2017, life insurance companies held about $11 billion in loans guaranteed by GNMA, and while this only represents about 1% of the roughly $1.8 trillion GNMA market, the average GNMA loan size of about $225,000 indicates that the tangible impact of insurance investments is significant. This is especially important as the need for affordable housing has become a growing concern in recent years.

Beyond MBS, insurers are also starting to increase their allocation to whole loan portfolios, specifically non-performing loans (NPL) and re-performing loans (RPL), as well as near prime and jumbo mortgages. By investing in these, insurers provide stability and liquidity to loan pools that are still recovering from the Great Recession. These portfolios provide a steady income stream through mortgage payments, and these products provide insurers with the ability to access higher yields in the long run than currently performing loans. Larger insurers have the resources to successfully evaluate and monitor the portfolios to ensure that the risk of default is limited and that insurers are only investing in the highest-quality portfolios but asset allocation is limited beyond a few large insurers.

Affordable and Specialty Multifamily Housing
Insurers not only make loans and investments for conventional multifamily housing, but also support thousands of units dedicated to low-income, workforce, senior, and disabled households every year. They provide direct private finance and investments and participate in government-affiliated programs such as Fannie Mae, Freddie Mac, the Department of Housing and Urban Development's FHA and Community Development, VA initiatives, and state and local affordable programs and bonds, among others. They also finance and invest in sustainable and green housing initiatives, often in conjunction with their multifamily housing market activities.

> "Millions of low-income Americans are paying 70 percent or more of their incomes for shelter, while rents continue to rise and construction of affordable rental apartments lags far behind the need."
> – The New York Times, 2018[31]

Table 2 illustrates some of the publicly available affordable multifamily activities undertaken by large insurers.

Insurance company	Affordable Multifamily Activities
Prudential[32]	In 2018, PGIM Real Estate Finance helped preserve over 3,500 affordable housing units and over $557 million in direct affordable and workforce housing financing, including a $102 million Freddie Mac loan to support affordable and senior housing in Brooklyn, New York. As of 2017, Prudential had $2.1 billion AUM attributed to affordable housing.[v]
MetLife[33]	Over $200 million in community and affordable housing investments in 2017 to both the U.S. and U.K. Total portfolio amounted to $2.4 billion.
TIAA	TIAA investments and Enterprise Homes jointly invested in a fund that purchased 43 properties, covering 4,100 units, in the mid-Atlantic in 2017 to help preserve them as affordable housing.[34]

Table 2:
Examples of insurance company affordable loan projects

In addition to direct financing and investment, insurers have used federal tax incentive programs, such as the Low-Income Housing Tax Credit (LIHTC) program or the new opportunity zone rules authorized by the Tax Cuts and Jobs Act of 2017, to support the development and preservation of affordable housing. Since its inception in 1986, the LIHTC has helped with the development of over 2.8 million homes. Initiatives like this have helped insurers fund projects that benefit communities, while still meeting investment targets to match future liabilities.

INFRASTRUCTURE

According to the Brookings Institution, there are some "14 million workers who are impacted by infrastructure-related sectors—this accounts for roughly 11% of the total U.S. labor force."[35] With regards to economic output provided by infrastructure, a simulation carried out by the National Association of Manufacturers estimated that "by 2030, infrastructure investments would produce economy-wide returns of close to $3 per every $1 spent."[36] It is therefore critical to finance infrastructure projects in an efficient manner.

There are two types of infrastructure financing approaches that are relevant for insurers. The first and most common way for municipalities to finance infrastructure improvements is to issue municipal bonds to finance investments with longer-term tax revenue. This bond is then tradable on the public markets. The second and less common method is for municipalities or large utilities to offer direct lending in specific projects. This method is significantly less liquid, as these direct-lending arrangements are not publicly traded and require significantly more institutional capital. Insurers offer capital to this market along with other institutional investors, such as pension funds or sovereign wealth funds.

v. "Figures are inclusive of both Prudential's general account investments and PGIM client investments."

INSURANCE INFRASTRUCTURE INVESTMENTS

In 2011, TIAA entered into a public-private partnership agreement to support the Interstate 595 corridor project with the Florida Department of Transportation. An integral route, I-595 carries more than 180,000 vehicles daily, with those figures set to rise. The $1.6 billion project enhanced the experience of Floridians traveling on this road while also offering TIAA a steady stream of recurring payments. The project was eventually recognized as a model for excellence in innovative transportation financing by the American Road & Transportation Builders Association.

In 2017, MetLife Investment Management originated $3.8 billion in infrastructure and project finance debt-related transactions. Its portfolio in infrastructure and project finance debt exceeds $17.7 billion. It was recognized as Global Institutional Investor of the year by Infrastructure magazine in 2015.

In 2018, Prudential Capital Group launched its first energy mezzanine fund, raising $343 million, which will be used to make investments ranging from $10 million to $50 million to support new and existing oil, gas, renewable, and other conventional energy facilities in North America. (Figures are inclusive of both Prudential's general account investments and PGIM client investments.)

MUNICIPAL BONDS

The traditional method of investing in infrastructure through municipal bonds continues to play a major role for insurance companies. The long-term holding nature of insurance companies aligns well with the long-term financing needs of government entities. Their presence provides stability, efficiency, and a recurring demand source in the market. Here, insurance companies are the fourth leading source of capital after individual investors, mutual funds, and banks.

Between 2010 and 2016, annual municipal issuance averaged about $430 billion, and bond proceeds were allocated across the diverse needs of the issuers.[37] Based on usage of municipal bonds and insurer share of total issuance, estimates indicate that life insurers alone invested roughly $16 billion in education, $7 billion in transportation, $6 billion in utilities and $5 billion in health care projects per year.

The $16 billion invested in education could potentially support 0.5% to 1% of the estimated 55 million students in K-12 private or public schools across the country. These investments could directly support the construction of 1,000 elementary schools, which would support around 620,000 students and close to 45,000 teachers. Alternatively, it could provide funding for 350 high schools holding around 350,000 students and 25,000 teachers. These investments ensure students are able to receive their education in safe, high-quality buildings.

With regards to transportation, the $7 billion in investments per year would be sufficient to pave 2,300 miles of road annually, the length of a road from Washington, D.C., to Los Angeles. This level of investment could help rebuild up to about 1% of the total mile network in the U.S. (4 million miles) every year.

Insurers investing in these markets helped keep the cost of funding down for debt issuers and provided public entities with the ability to offer services similar to what has been previously discussed to their constituents.

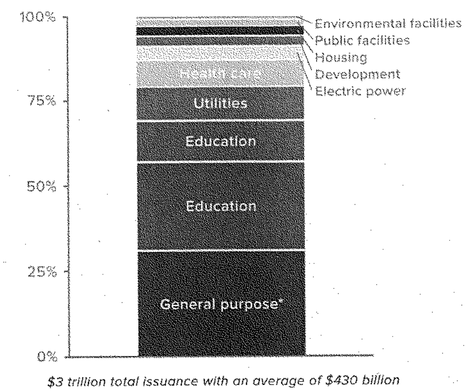


Figure 16:
Use of proceeds from municipal bonds issued between 2010 & 2016

*These are funds used for general public works facilities and improvements.

Source: MSRB

Direct infrastructure investments

The profile of direct infrastructure investments makes them ideal for private-sector investors with long-term horizons and large capital bases. These investments require sophisticated knowledge and expertise from investors that allow them to navigate a complex risk-return asset profile across the life cycle (from planning to construction to wind-down). As of 2017, global insurance companies had allocated over $1 trillion[38] in direct infrastructure projects, and participants expect this allocation to increase as insurance companies look to achieve their target asset allocation.

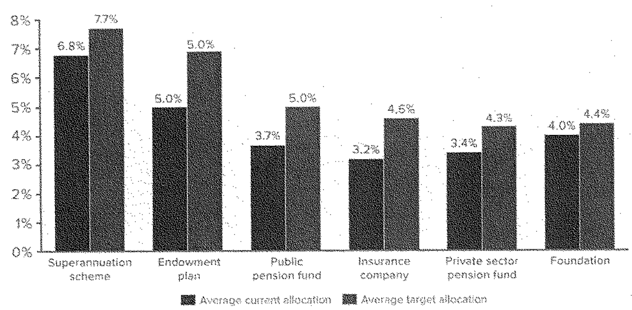


Figure 17:
Institutional investors' current and target allocations to infrastructure by type, *2017*

Source: Preqin

Insurance companies accounted for approximately 6% of infrastructure investments in 2016, investing roughly $26 billion.[39] Based on available estimates of the economic multiplier of infrastructure investments, these investments translate to approximately 250,000-600,000 jobs.

AGRICULTURE FINANCE

Agriculture is a key driver of the U.S. economy, and insurers support this by providing private financing for agricultural loans. As of 2015, agriculture and related industries accounted for roughly 5.5% of total U.S. GDP and contributed close to $992 billion to GDP.[40] According to the U.S. Department of Agriculture (USDA), agriculture, both directly and indirectly, was responsible for over "21.6 million full- and part-time jobs."[41]

By its nature, agriculture is a long-term investment that requires patient and engaged capital providers. These characteristics are ideal for investors with low liquidity needs and a desire to be involved for the longer term, and insurers fit this profile. As of the third quarter of 2018, insurers account for about 6%, or close to $14 billion, of total U.S. farm mortgages, or 12% of farm mortgages from nongovernment lenders.

Agriculture credit provides farmers, landowners, and rural communities with a consistent and stable source of capital. Credit can also be extended to finance rural infrastructure. Across the value chain, loans are used for horticulture, livestock, food products, and more. Loans made by insurers are aligned to the time horizons of the borrower and are usually secured by a first lien on collateral (e.g., land and buildings). This financing by insurers supports jobs and creates economic growth.

Insurance companies also contribute to the stability of the agricultural real estate mortgage market structure. Working alongside other agricultural lenders, including banks and members of the Farm Credit System (FCS) funding corporations, insurers provide the agricultural market with another source of stable, long-term financing. These loans ultimately find their way into the secondary market through Farmer Mac (Federal Agricultural Mortgage Corporation). This system supports over 550,000 borrowers with agriculture-related needs across the U.S. and in Puerto Rico.

According to Federal Reserve flow data, in 2017, life insurance companies invested approximately $700 million in new agricultural mortgage loans.[42] These investments could support over 530 entire farms in 2017.[43] In terms of the purchase of farm equipment, insurers' $700 million of investments in 2017 would have been sufficient to finance around 6,100 farms' machinery.

INSURANCE AGRICULTURE INVESTMENTS

MetLife is a major player in the agricultural mortgage space, with more than $14.5 billion in its loan portfolio. Investments in 2016 included:

- $49 million in a 20-year loan to Rose Acre Farms in Arizona, the second largest producer and marketer of eggs in the U.S.
- $30 million in a 10-year loan to Keweenaw Land Association Limited, a forest products and land management company based in Michigan and Wisconsin
- $11.1 million to Good Luck Properties LLC in Mississippi, for a family-managed farm involved in the production of cotton, rice, and row crops

In 2014, TIAA worked with the Napa Sanitation District in Napa County, California, to support the building of a system to recycle wastewater. Through its affiliate Nuveen, $2 million in capital and property easements were provided to develop an irrigation pipeline. This supported 40 landowners and cut their irrigation costs by up to 65%. TIAA has also participated in the Yazoo Mississippi Delta voluntary flow meter irrigation program. This manages water flow to mitigate issues related to water availability in the delta.

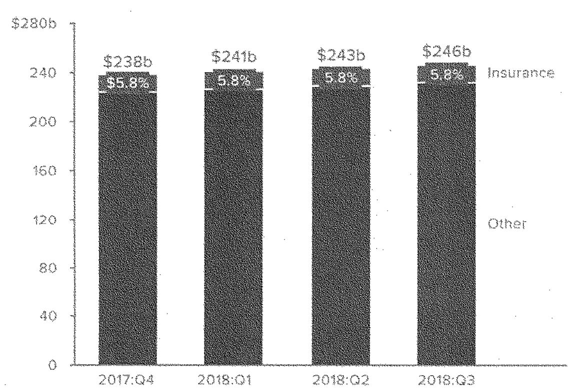


Figure 18:
Lender composition of U.S. farm mortgages
2017 - 2018

Source: U.S. Federal Reserve

CONCLUSION

U.S. insurance companies play a key role in the capital markets and ultimately have an outsized impact on the nation's economy, its communities, and its individuals through their investments. Their focus on long-term, lower-risk investments provides stability to the market, and their ability to provide capital to those who are struggling to access it helps drive economic growth. Insurance investments touch all aspects of the economy and have a positive impact on farmers, homeowners, and businesses across the country. Insurers have invested trillions of dollars in the U.S. economy, helping companies grow and innovate, Americans purchase homes, and large-scale infrastructure and commercial projects get off the ground. As a result, insurance investments have a positive impact on the U.S. economy, providing stability, injecting capital, and, ultimately, driving economic growth.

Insurance companies make up a sizeable portion of the overall U.S. capital markets. Their focus on fixed-income investments has made them important players in asset classes such as corporate bonds and municipal bonds. Insurance companies also play a significant role in alternative asset classes, such as commercial real estate loans, private placement debt and farm mortgages. In each of these markets, insurance companies use their experience, access to liquidity and long-term focus to build out a key market position through a unique investment approach.

Insurance companies are valuable to the capital markets, not just because of the volume of their investments, but because their unique strategy helps bring stability and liquidity to the market. Insurance companies need to ensure their investments are aligned with their business model, and, specifically, assets need to align with liabilities both in terms of yield and duration. With a business model built around long-term illiquid liabilities, insurance companies focus on investments with longer durations and less risk than other institutional investments. Insurance companies take the long view of the market and are able to sacrifice short-term liquidity in exchange for long-term, low-risk illiquid assets, which provide a steady stream of income over the holding period. This long-term view, ability to provide liquidity, and focus on low-risk assets help stabilize the capital markets over the long term.

When looking at specific asset classes, it is clear how insurers' investments directly impact the economy. Their annual municipal bond investments could help fund the construction of up to 1,000 elementary schools, and their transportation investments could build a road from Washington, D.C., to Los Angeles each year. Insurers' involvement in MBS and commercial and multifamily real estate helps provide homes for families of all incomes and stability in the housing market. Their agriculture investments could help provide mortgages for over 530 farms a year or financing for equipment purchases for close to 6,100 farms. Private-equity funding helps create 10 jobs for every $1 million invested, and with close to $30 billion invested in 2017, they help create 30,000 jobs. Corporate bonds help companies build, expand, and renovate their operations, creating thousands of new jobs each year. These projects would not be possible without the capital provided by insurers. All this underlines the importance of insurance companies not only to the capital markets, but also to the overall U.S. economy.

APPENDIX

Investment type	Investment/ project type	Methodology
Corporate debt	Corporate bonds	Identified total bond issuance in 2017 ($775 billion) from public sources, and the estimated percentage that was used for stock repurchases (roughly 75%) from public sources as well (Source: SNL, NAICS) By elimination, determined that 20% to 25% of newly issued bonds are for new business investment Roughly $530 billion[vi] in corporate debt was purchased by life insurance companies in 2017 (Source: SNL). Of this, 20% to 25% was used for capital expenditure[17]
	Private placement	Identified committed capital raised by private debt funds between 2016 and 2017 was approximately $37 billion (Source: Preqin) Estimated insurance share of this at 9% (in line with public data showing that the global share of private debt investments held by insurers is 9%. The U.S. accounts for over 50% of the total market.) Obtained estimates for community and economic impact of lending to small businesses (Source: SBA). Estimated that this figure would be the conservative estimate of output impact, which implies lending would have led to $12.6 billion in gross output for their local communities[6]
Corporate equity	Publicly traded equity	Insurers have limited share of investments in public equity, which are highly liquid
	Private equity	Using public sources, identified that roughly $300 billion was invested in private equity (PE) during 2017 Estimated that insurance companies account for about 9% (roughly $30 billion) of total market Identified job impact using impact analysis of PE industry (about 10 jobs per $1 million invested) (Source: American Investment Council)[7]

vi. Notes: in 2017, life insurance companies held about 6.6% of their bond portfolio in assets with a maturity of less than one year, and about 25% in assets with maturities of one to five years. This amounts to an average of about $140 billion in corporate bonds that will mature in 12 months and another $532 billion that will mature on a short-term basis. This maturity schedule supports the participation of insurers in new corporate bond issues.

Investment type	Investment/ project type	Methodology
Real estate	Mortgage-backed securities	Used public records to determine that the current stock of mortgage-backed securities held by insurance companies is about $490 billion (Source: SNL) Used average mortgage size outstanding of roughly $148,000 to approximate the number of loans held by insurers and eliminated close to 35% of mortgages that are estimated to be refinances[8]
	Non-performing/ re-performing loan pools	Primary impact is the indirect effect of provided liquidity to support wind-down of pools of non-performing loans from 2008 recession
	Commercial real estate loans	Used public data to determine that in 2017, roughly $490 billion in large-cap commercial real estate lending exists Using public data, estimated that 11% was initiated by insurers equating to about $54 billion in 2017 Estimated that roughly 2% are construction loans for about $935 million in construction loans; applied multipliers from NAIOP to calculate impact on economy and number of jobs created[10]
	Real estate equity	Insurers purchase, renovate, and operate commercial and multifamily real estate buildings in housing, office, industrial, and retail sectors; building improvements could drive additional real economic impact. Every $1 of additional spending by insurance companies over previous owner equates to $2.64 in real economy[11]
Infrastructure	Municipal bonds	Identified total municipal bonds purchased by life and P&C insurance companies in 2017 (Source: SNL) Reviewed historical proceed use across sectors (Source: MSRB) Approximated investments in the various sectors accordingly by aligning total municipal bonds purchased and sector allocations (Source: MSRB) *Education:* Estimated $16 billion in 2017 insurance investments—used public reports to identify median construction cost and school size to calculate impact on number of schools, students, and teachers[12] *Transportation:* Estimated $7 billion in 2017 insurance investments—used pubic data to average the cost of building a mile of single/two lane/highway road and determined the total potential [13]

Investment type	Investment/ project type	Methodology
Infrastructure	**Direct infrastructure/ Private-public partnerships**	Used public sources to identify new infrastructure deals (assets under management) raised in the U.S. by closed end funds ($487 billion) (Source: Preqin) Estimated conservatively insurance company portion of infrastructure investors based on historical public data (about 6%) (Source: SNL) Aligned this figure to determine net raised capital allocated to insurance companies Applied multipliers to net raised capital to approximate implied new jobs (Source: Economic Policy Institute) New investments: About $26 billion in 2017 in insurance investments from 6% of total infrastructure investments; economic impact calculated using infrastructure investment employment multipliers from multiple studies[14]
Agriculture finance	**Agricultural loans for land, building, and equipment**	Estimated life insurance company purchase of agricultural mortgage loans in 2017 (Source: Federal Reserve/USDA data). (About $700 million) Used average market value for an acre, and the average farm size, to calculate number of farms (Source: USDA) Used average cost of machinery to calculate the number of farms whose equipment purchases could be financed[15]

Source: U.S. Federal Reserve

Information contained herein has not been independently verified and is subject to material change based on continuing review. Accordingly, the information contained herein is not intended to be and should not be relied upon by any third party or as legal, auditing, or accounting advice.

With respect to the information contained herein, there has not been any examination, compilation or application of agreed upon procedures to such information in accordance with attestation standards established by the American Institute of CPAs. Consequently, no assurance of any kind is given with respect to, or on, the information presented. There will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected and those differences may be material. As a result, no responsibility for the achievement of forecasted results is made. Accordingly, reliance on this report is prohibited by any third party, as the information contained herein is subject to material change and may not reflect actual results.

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AGREEMENT

This Agreement is entered into this 31st day of January 2019, by and between the U.S. Department of Housing and Urban Development ("HUD"), the New York City Housing Authority ("NYCHA"), and New York City ("the City").

I. Recitals

1. WHEREAS, under the United States Housing Act of 1937, as amended, 42 U.S.C. § 1437 *et seq*., HUD is responsible for administering low income housing programs;

2. WHEREAS, NYCHA is a Public Housing Agency that receives federal financial assistance from HUD to administer its public housing program;

3. WHEREAS, NYCHA, in accordance with the Annual Contributions Contract and related regulations related to the grant effected pursuant to the Annual Contributions Contract, is required to, among other things, provide decent, safe, and sanitary housing for the public housing residents of New York City and comply with federal law protecting children from the hazards of lead poisoning;

4. WHEREAS, on June 11, 2018, the United States filed a complaint in the United States District Court for the Southern District of New York (the "Complaint"). The Complaint set forth the findings of the United States' investigation, alleging, among other things, that NYCHA had routinely failed to comply with lead-based paint safety regulations; had failed to provide decent, safe, and sanitary housing, including with respect to the provision of heat and elevators and the control and treatment of mold and pests; and had repeatedly misled HUD through false statements and deceptive practices;

5. WHEREAS, in a Consent Decree executed June 11, 2018, NYCHA made admissions regarding, among other things, deficiencies in physical conditions with respect to lead, mold, heating, elevators and pests, untrue statements to HUD regarding the conditions of NYCHA properties, and practices with regard to Public Housing Assessment System inspections;

6. WHEREAS, based on NYCHA's misconduct as detailed in the Complaint, on January 31, 2019, the Secretary of HUD (the "Secretary") declared that NYCHA is in substantial default within the meaning of Section 6(j)(3)(A) of the U.S. Housing Act. *See* 42 U.S.C. § 1437d(j)(3)(A);

7. WHEREAS, HUD is not taking possession of NYCHA or appointing a receiver at this time. Rather, HUD has determined that the terms of this Agreement constitute an "arrangement[] acceptable to the Secretary and in the best interests of the public housing residents . . . for managing all, or part, of the public housing administered by the agency or of the programs of the agency" within the meaning of 42 U.S.C. § 1437d(j)(3)(A)(v);

8. WHEREAS, the purpose of this voluntary Agreement is to remedy the deficient physical conditions in NYCHA properties, ensure that NYCHA complies with its obligations under federal law, reform the management structure of NYCHA, and

facilitate cooperation and coordination between HUD, NYCHA, and the City during the term of this Agreement; and

9. WHEREAS, the City agrees to provide the funding as set forth in Section VI.

10. WHEREAS, except as provided in this Agreement, NYCHA shall maintain control of its operations and shall be responsible for implementing the action plans described in this Agreement and meeting the physical conditions standards set forth in Exhibit A and Exhibit B;

11. WHEREAS, the United States Attorney's Office for the Southern District of New York ("SDNY") will, within 14 days of the appointment of the Monitor, file appropriate papers with the U.S. District Court to obtain dismissal, without prejudice, of the Complaint;

12. NOW, THEREFORE, HUD, NYCHA, and the City, in consideration for their mutual promises, agree to be legally bound, as follows:

II. Definitions

13. Whenever the terms set forth below are used in this Agreement, the following definitions shall apply:

    a. "Action Plan" shall have the meaning provided in paragraph 35.

    b. "Agreement" means this Agreement.

    c. "Board" means the board of NYCHA, including all of its members.

    d. "Chair" or "NYCHA Chair" means the chairperson of NYCHA.

    e. "Day" shall mean a calendar day unless expressly stated to be a business day. In computing any period of time under this Agreement, where the last day would fall on a Saturday, Sunday, or federal holiday, the period shall run until the close of business of the next business day.

    f. "Effective Date" has the meaning provided in Section XII.

    g. "EPA" means the U.S. Environmental Protection Agency.

    h. "Housing Act" or "Act" means the U.S. Housing Act of 1937, set forth at 42 U.S.C. § 1437d.

    i. "HUD" means the U.S. Department of Housing and Urban Development.

    j. "Monitor" means the individual serving as Monitor pursuant to Section III of this Agreement, as well as his or her consultants, staff, or designees, except where expressly provided otherwise in this Agreement.

k. "Paragraph" shall mean a portion of this Agreement identified by an Arabic numeral, including subparts thereto.

l. "Party" means HUD and NYCHA and, with respect to its commitments under this Agreement, the City.

m. "Quarter" means each three-month period ending March 31, June 30, September 30, and December 31 of each calendar year.

n. "Quarterly Report" means the reports described in paragraphs 25 to 26 of this Agreement.

o. "Secretary" shall mean the Secretary of the U.S. Department of Housing and Urban Development or his or her designee, who shall be the Deputy Secretary, the Assistant Secretary of the Office of Public and Indian Housing, or a Deputy Assistant Secretary in the Office of Public and Indian Housing.

p. "Section" shall mean a portion of this Agreement identified by a roman numeral.

q. "Work Plan" shall mean the set of compliance requirements, standards, and deadlines contained in the document set forth herein as Exhibit A and Exhibit B.

III. Applicability

14. The obligations of this agreement apply to apartment units, common areas, residential buildings, and building sites consisting of public housing owned or operated by NYCHA and receiving funding through Section 9 of the Housing Act.

15. If, due to a conversion program an apartment unit, common area, residential building, or building site is no longer operated by NYCHA and receiving funds through Section 9 of the Housing Act, then the obligations of this agreement shall no longer apply as to those conversions as of the closing of the applicable transaction, except that, with regard to transactions closed more than six months after the Effective Date, NYCHA shall ensure that, during the construction period, the project developer abates lead-based paint in compliance with the lead abatement standards of 24 C.F.R. § 35.930(d), regardless of the dollar value of rehabilitation. Following abatement, NYCHA shall provide to the Monitor a clearance report pursuant to 24 C.F.R. § 35.1340(c).

IV. Monitorship

A. Selection and Costs

16. After consultation with NYCHA and the City, HUD and SDNY shall require the City to appoint an individual selected by HUD and SDNY and chosen on the basis of merit to serve as the Monitor.

17. In the event that the individual serving as Monitor resigns or otherwise ceases to serve as Monitor, HUD and SDNY shall jointly designate a replacement Monitor. The replacement Monitor shall be an individual chosen on the basis of merit. HUD and SDNY will provide the City an opportunity to provide its views to with respect to possible replacement Monitors.

18. The Monitor may engage such staff, expert consultants, or other third-party contractors as he or she deems appropriate to use his or her powers fully and perform his or her responsibilities fully.

19. The Monitor shall submit an annual budget for the monitorship, including work, staff, expert consultants or other third-party contractors engaged by the Monitor, to HUD, SDNY, NYCHA and the City for approval.

    a. Any dispute over the Monitor's budget shall be submitted to the Secretary for final decision.

    b. The Monitor's approved annual budget shall be made publicly available.

    c. Amendments to the budget shall proceed through the same process described in this paragraph.

    d. The Monitor shall notify HUD, SDNY, NYCHA and the City when the Monitor has spent 75% of an approved annual budget.

    e. If the Monitor exceeds the approved annual budget, the Monitor shall inform the City promptly after becoming aware of the overrun and shall submit to HUD, SDNY, NYCHA and the City a detailed explanation for the overrun, as well as a proposed amended budget reflecting the cost overrun and any other necessary adjustments pursuant to the process for amended budgets.

20. The City shall pay the approved costs of the monitorship. Such costs shall be in addition to the City Funding described in Section VII.

B. General Powers

21. The Monitor, HUD, EPA and SDNY shall have, solely for the purposes of this agreement, full access to all information in NYCHA's possession, including but not limited to data systems, documents, and materials, and they shall have full access to all programs, services, facilities, and premises under the control of NYCHA. Nothing herein limits the ability of HUD, EPA, and SDNY to use such information, once accessed, for any enforcement purpose. The Monitor, HUD, EPA and SDNY shall comply with any applicable federal law regarding personally identifiable information to which the Monitor, HUD, EPA and SDNY obtain access. This provision does not permit access to information protected by the attorney-client privilege or the attorney work product protection without NYCHA's consent. Nothing in this Agreement will otherwise restrict or limit any existing rights to access of HUD, EPA or SDNY.

22. The Monitor may communicate with NYCHA officers, employees, contractors, managers, board members, or residents without notice to NYCHA and without NYCHA's permission or presence, provided that such individuals shall not provide any information subject to the attorney-client privilege or attorney work product protection without NYCHA's consent. NYCHA shall make any such individuals within its control available to the Monitor upon request.

23. The Monitor may communicate at his or her discretion with any Party, the public, NYCHA residents, and representatives of any federal, state, or local United States entity.

24. The Monitor shall not be responsible for NYCHA's day-to-day operations. Nothing in this paragraph is intended to limit the powers of the Monitor otherwise granted under this Agreement.

C. Reporting

25. The Monitor shall submit a Quarterly Report, beginning after the first full quarter after the date of appointment, to HUD, EPA, and SDNY, setting out:

    a. The work performed by the Monitor during the relevant period;

    b. The extent to which NYCHA is complying with the Agreement, including Exhibit A and Exhibit B;

    c. Objective data showing NYCHA's progress toward achievement of the requirements in Exhibit A and Exhibit B; and

    d. Any other information the Monitor may deem appropriate regarding matters covered by the Agreement.

26. The Quarterly Reports or a summary thereof shall be made publicly available on NYCHA's website.

27. NYCHA shall meet with the Monitor, HUD, EPA and SDNY (at their discretion) to review the Monitor's Quarterly Reports and discuss strategies for improving NYCHA's performance. In addition, upon request by HUD, EPA, or SDNY, the Monitor shall meet with them (individually or collectively) to review NYCHA's performance under this Agreement, including to review the Monitor's Quarterly Reports.

28. The Quarterly Report issued five years from the Effective Date, and each Quarterly Report thereafter, shall include an assessment of whether NYCHA meets the Criteria for Termination, as described in paragraph 86.

D. Community Engagement

29. The Monitor shall engage with NYCHA stakeholders, including residents and resident groups, regarding matters related to the Agreement.

30. The Monitor shall periodically (but at least quarterly) convene a Community Advisory Committee, consisting of NYCHA stakeholders such as NYCHA's Resident Advisory Board; resident, community, and employee representatives; senior NYCHA managers; and other relevant stakeholders to solicit input regarding the achievement of the Agreement's purpose.

31. The Monitor shall establish procedures for the Monitor to communicate with and solicit comment from residents, resident groups, and other NYCHA stakeholders outside of the Community Advisory Committee.

E. Coordination

32. The Monitor shall coordinate with any court-appointed officers addressing matters covered by this Agreement, including the Special Master appointed in *Baez v. NYCHA*, No. 13 Civ. 8916 (S.D.N.Y.).

V. Compliance Requirements and Action Plans

33. NYCHA will implement and achieve substantial compliance with the requirements of Exhibit A and Exhibit B by the deadlines set forth therein.

34. NYCHA shall cooperate in all respects with actions taken by the Monitor under this Agreement.

35. NYCHA will prepare Action Plans setting forth policies and practices to be adopted and specific actions to be taken by NYCHA to achieve the obligations set forth in Exhibit A and Exhibit B and comply with the terms of this Agreement.

36. NYCHA shall submit each such Action Plan to the Monitor, with a copy to HUD and SDNY, for approval on a schedule set by the Monitor. Upon receipt of a proposed Action Plan submitted by NYCHA, the Monitor shall approve or reject the Action Plan as submitted within a reasonable time. The Monitor shall consider

public health and safety, cost, and other factors deemed relevant by the Monitor in reviewing a proposed Action Plan.

a. If the Action Plan is rejected, the Monitor shall inform NYCHA (in writing if so requested by NYCHA) of the reasons the Action Plan is rejected. NYCHA shall promptly submit a revised proposed Action Plan addressing the deficiencies in the original Action Plan identified by the Monitor.

b. If NYCHA is unable to submit a revised proposed Action Plan acceptable to the Monitor within 30 days of the rejection, the Monitor may submit a proposed revised Action Plan to NYCHA, HUD and SDNY. Within 21 days of submission of the Monitor's proposal, NYCHA may submit comments on the proposal to HUD and SDNY. HUD and SDNY shall consider the Monitor's proposal and NYCHA's comments.

c. After considering the submissions and consultation with the Monitor, HUD (and, with respect to a revised proposed Action Plan implementing Exhibit A, SDNY) may approve the Monitor's proposal, approve NYCHA's proposal, approve either proposal with modifications, or reject the proposals. NYCHA and the Monitor shall be provided with notice of and a reasonable opportunity to comment on any non-de minimis modifications to the proposals submitted before a modified proposal goes into effect.

d. Nothing in the foregoing shall prevent NYCHA from taking actions it determines are necessary in the interest of residents while approval of an Action Plan is pending.

37. An Action Plan shall set forth policies and practices to be adopted and specific actions to be taken by NYCHA to achieve sustained compliance with particular aspects of this Agreement. Each Action Plan shall include interim milestones to be achieved by specified completion dates for all obligations due more than 60 days from the date of the Action Plan. An Action Plan may include, among other things, changes to policies, procedures, systems, personnel and management structures.

38. An Action Plan may set forth a methodology for calculating metrics contained in Exhibit A and Exhibit B, provided that such methodology is consistent with the terms of those Exhibits.

39. Any proposed revised Action Plan of the Monitor may direct NYCHA to select an independent contractor to perform work called for by an Action Plan. The Monitor shall give such direction through a revision to an Action Plan when the Monitor believes it is important to achieve or sustain NYCHA's compliance with

the Agreement, taking into consideration public health and safety, cost, and other factors deemed relevant by the Monitor. The selection of an independent contractor pursuant to this paragraph shall be through an open and public bidding process, consistent with applicable law, which shall detail the scope of work. NYCHA, in consultation with the Monitor, shall make the selection of an independent contractor based upon the contractor's experience, skill, expertise, and the estimated time and cost of repairs.

40. NYCHA shall promptly adopt each approved Action Plan as its official policy, procedure and course of action and shall use best efforts to implement such Action Plan. The obligation to use "best efforts" with respect to Action Plans does not diminish NYCHA's obligation to achieve substantial compliance with the requirements of Exhibit A and Exhibit B. An Action Plan shall not waive or affect any requirements of this Agreement, including Exhibit A and Exhibit B, which requirements shall be binding on NYCHA independently of any Action Plan.

41. NYCHA shall post each approved Action Plan on its public website.

42. The Monitor may direct NYCHA to submit, by a date certain, a replacement for or modification to any previously approved Action Plan. Such replacement or modified Action Plan will be subject to the process described in paragraphs 36 to 41.

43. At NYCHA's request, the Monitor will consider whether a modification to one or more requirements of Exhibit A, Exhibit B, or an approved Action Plan will further the purposes of this Agreement. If the Monitor determines that modifying such requirement will further the purposes of the Agreement, the Monitor may propose such modification to HUD and SDNY (and EPA as to a modification to Exhibit A). If HUD and SDNY (in consultation with EPA as to Exhibit A) concur in a proposed modification, such modification will go into effect and be a binding part of this agreement.

VI. Institutional Changes

A. Change in Leadership

44. The City shall follow the following process to select a permanent Chair and CEO for NYCHA:

   a. By 30 days after the Effective Date, a list of candidates for the position of Chair and CEO shall be jointly developed by the City, HUD, and SDNY. Every candidate on the list shall be jointly agreed to by the City, HUD, and SDNY. The City, HUD, and SDNY shall have the opportunity to interview any candidates.

   b. By the end of the 30 day period after the list of candidates is finalized, the City shall select a permanent Chair and CEO for

NYCHA from the jointly-developed list of candidates. If the selected candidate accepts the position, the selected candidate will begin serving as NYCHA Chair and CEO within 30 days of the candidate's selection, unless the candidate's personal circumstances require the candidate to start at a later date. If a selected candidate does not accept the position, the City may choose another individual from the list of candidates for the position, and that individual will begin serving as NYCHA Chair and CEO within 30 days of the candidate's selection, unless the candidate's personal circumstances require the candidate to start at a later date. In the alternative, the City may choose to restart the selection process set forth in this paragraph 44, in which case a new joint list shall be developed within 30 days of the date the selected candidate declined the position.

c. The time periods in subparagraphs 44(a)-(b) shall, upon agreement by HUD, SDNY, NYCHA, and the City, be reasonably extended if extraordinary circumstances necessitate such an extension.

d. During the term of this Agreement, NYCHA's Chair and CEO shall not be removed or replaced without the concurrence of HUD and SDNY.

e. During the term of this Agreement or ten years, whichever is shorter, any vacancy in this position shall be filled pursuant to the process set out in this paragraph.

B. Organizational Plan

45. No later than 60 days after the appointment of the Monitor, the City shall engage a third-party management consultant selected jointly by the City and the Monitor. The consultant shall examine NYCHA's systems, policies, procedures, and management and personnel structures, and make recommendations to the City, NYCHA, and the Monitor to improve the areas examined.

a. The consultant shall have full access to all information in NYCHA's possession not covered by the attorney-client privilege or attorney work product protection, including but not limited to data systems, documents, and materials, and they shall have full access to all programs, services, facilities, and premises under the control of NYCHA.

b. The City shall pay any costs and fees of the consultant.

c. The consultant's scope of work shall be jointly developed by the Monitor, NYCHA, and the City.

d. The consultant shall deliver a final report and recommendations to the City, NYCHA, and the Monitor, with copies to HUD, EPA and SDNY, no later than a deadline to be set by the Monitor.

46. The Monitor and NYCHA collaboratively shall prepare an "Organizational Plan" setting forth changes to NYCHA's management, organizational, and workforce structure (including work rules), and overarching policies necessary or appropriate to achieve sustained compliance with NYCHA's obligations under this Agreement. The Organizational Plan may include, among other things, changes to the roles, responsibilities, authorities, and reporting lines of NYCHA's Chair, General Manager, and Board. The Organizational Plan shall address the recommendations of the third-party management consultant and explain any deviations from those recommendations.

47. The proposed Organizational Plan shall be submitted to HUD, SDNY, and the City no later than six months from the receipt of the consultant's report. After consultation with and concurrence by HUD and SDNY, the Organizational Plan shall be considered final.

48. If NYCHA and the Monitor are unable to agree on an Organizational Plan, then the Monitor shall develop his or her own Organizational Plan and shall provide copies of the plan to NYCHA, the City, HUD, and SDNY. The Monitor shall consider public health and safety, cost, and other factors deemed relevant by the Monitor in developing the Organizational Plan.

a. Within 21 days of submission of the Monitor's proposal, NYCHA may make a submission regarding the proposal to HUD and SDNY. HUD and SDNY shall consider the Monitor's proposal and NYCHA's comments.

b. After considering the submissions and consultation with the Monitor, HUD and SDNY may approve the Monitor's proposal, approve NYCHA's proposal, approve either proposal with modifications, or reject the proposals. NYCHA and the Monitor shall be provided with notice of and a reasonable opportunity to comment on any non-de minimis modifications to the proposals submitted before a modified proposal goes into effect.

49. Once an Organizational Plan has been approved, NYCHA shall promptly adopt it as its official policy, procedure and course of action and shall use best efforts to implement it.

50. Nothing in the foregoing shall prevent NYCHA from taking actions it determines are necessary in the interest of residents while approval of an Organizational Plan is pending.

51. The Monitor and NYCHA may develop and issue a replacement for or modification to any previously approved Organizational Plan. Paragraphs 47 through 49 shall apply to such replacement or modification.

52. NYCHA shall report in writing to the Monitor, HUD, and SDNY on its compliance with the Organizational Plan sixty days after it is issued, and every sixty days thereafter until the Organizational Plan is fully implemented.

C. Compliance Department

53. No later than 45 days after the appointment of the Monitor, NYCHA, in consultation with the Monitor, shall establish and maintain a Compliance Department that will serve the following functions:

   a. Overseeing NYCHA's regulatory compliance with regard to federal, state, and local obligations.

   b. Ensuring the accuracy of external reporting and statements by NYCHA.

   c. Ensuring that NYCHA management and staff receive appropriate compliance training.

   d. Maintaining a forum for employee, contractor, and resident complaints (including anonymous complaints) regarding compliance issues, and taking action on such complaints as appropriate.

   e. Ensuring the integrity of PHAS and other inspections at NYCHA.

   f. Advising the Environmental Health and Safety Officer (described below) of any information obtained by the Compliance Department that relates to environmental health and safety issues.

   g. Coordinating with the Environmental Health and Safety Officer regarding issues that impact both compliance and environmental health and safety.

   h. Reporting to the Monitor regarding any compliance issues identified during the term of the Agreement.

54. The Compliance Department shall be headed by a Chief Compliance Officer appointed by NYCHA with the concurrence of the Monitor, after providing HUD and SDNY an opportunity to comment. Except insofar as otherwise provided in the Organizational Plan, the Chief Compliance Officer shall report directly to NYCHA's Chair.

D. Environmental Health and Safety Department

55. No later than 45 days after appointment of the Monitor, in consultation with the Monitor, NYCHA shall create an Environmental Health and Safety Department that will serve the following functions:

   a. Analyzing, overseeing, and improving environmental health and safety at NYCHA, which shall include but not be limited to issues relating to lead-based paint, mold, heating, pests, elevators, air quality, and other aspects of NYCHA's physical environment that affect residents' health or safety.

   b. Reporting to NYCHA's senior management and Board on environmental health and safety issues.

   c. Making recommendations to NYCHA's senior management and Board for improvement and correction of any environmental health and safety issues at NYCHA.

   d. Communicating with the public and stakeholders regarding environmental health and safety issues, including by maintaining a forum for employee and resident complaints (including anonymous complaints) regarding environmental health and safety issues.

   e. Advising the Chief Compliance Officer of any information obtained by the Environmental Health and Safety Department that relates to regulatory compliance.

   f. Coordinating with the Chief Compliance Officer regarding issues that impact both compliance and environmental health and safety.

   g. Ensuring the proper application of lead paint interim controls and proper abatement of lead paint.

56. The Environmental Health and Safety Department shall be headed by an Environmental Health and Safety Officer appointed by NYCHA with the concurrence of the Monitor, after providing HUD and SDNY an opportunity to comment. Except insofar as otherwise provided in the Organizational Plan, the Environmental Health and Safety Officer shall report directly to NYCHA's Chair.

E. Quality Assurance Unit

57. No later than 45 days after appointment of the Monitor, in consultation with the Monitor, NYCHA shall create a Quality Assurance Unit that will serve the following functions:

   a. Identifying maintenance performance problems that are related to particular buildings, units, managers, or staff.

b. Using available information and research tools, including work-order data, resident interviews, employee interviews, and site visits.

c. Considering both performance on individual work orders and also performance of maintenance repairs from the first identification of need to the ultimate correction of the problem ("end-to-end").

d. Reviewing work performed by NYCHA in advance of PHAS inspections to determine whether that work was industry-standard quality.

e. Verifying and contributing to compliance with the Agreement insofar as the Agreement bears on maintenance work at NYCHA.

f. Communicating with the public and stakeholders regarding quality assurance issues, including maintaining a forum for employee and resident complaints (including anonymous complaints), regarding quality assurance issues.

g. Providing relevant Quality Assurance Unit findings to NYCHA managers, including the General Manager, and (during the term of the Agreement) to the Monitor, SDNY, and HUD.

58. The Quality Assurance Unit shall be headed by a Quality Assurance Officer appointed by NYCHA with the concurrence of the Monitor, and after providing HUD and SDNY an opportunity to comment. Except insofar as otherwise provided in the Organizational Plan, the Quality Assurance Officer shall report directly to NYCHA's General Manager.

59. No later than 60 days after the appointment of the Monitor, NYCHA shall provide the HUD, SDNY, and the Monitor with a certification of compliance with paragraphs 53 to 59.

F. PHAS Inspections

60. NYCHA will not use deceptive practices with respect to PHAS inspections, will make all improvements in accordance with PIH Notice No. 2016-03, Uniform Physical Condition Standard (UPCS) Deficiencies and Industry Standard Repairs, July 11, 2016 or any subsequent or superseding guidance; will ensure that all maintenance repairs are performed to established industry standards and workmanship; and will ensure that properties meet HUD's decent, safe, sanitary, and in good repair standards at all times.

61. NYCHA shall design internal controls to prevent deceptive practices including:

a. Covering up/hiding conditions.

b. Performing substandard repairs.

c. Performing work in common areas after an inspection begins, other than for emergency health and safety issues.

d. Performing work in selected or alternate units after such units have been identified, other than for emergency health and safety issues.

62. NYCHA's Chief Compliance Officer will be responsible for preventing deceptive practices with respect to PHAS investigations and ensuring compliance with HUD regulations and guidelines with respect to PHAS inspections. These responsibilities will include, but not be limited to:

a. Ensuring that training is provided to NYCHA employees on the regulations and guidelines with respect to PHAS inspections, including in particular the importance of not committing deceptive practices in PHAS inspections.

b. Routinely advising employees to report deceptive or otherwise improper PHAS practices to the Chief Compliance Officer.

c. Investigating such complaints as well as forwarding such complaints to the HUD and SDNY, and otherwise as required by applicable law.

d. Working with the Quality Assurance Unit to identify instances of improper work in connection with a PHAS inspection; provided, however, that the QA Unit's role is to identify maintenance needs and ensure the quality of work done throughout NYCHA throughout the year, and not to perform pre-PHAS maintenance itself.

e. Reviewing available data to identify any instances of improper work in connection with a PHAS inspection, including, but not limited to, those identified by the QA unit.

f. Recommending discipline for any managers or staff who conduct deceptive practices in PHAS inspections.

g. Nothing in this section limits NYCHA residents', NYCHA contractors', or NYCHA employees' ability to raise issues with any other federal, state, or local government entity.

h. By ninety (90) days after the appointment of the Monitor, NYCHA will submit an Action Plan to the Monitor for meeting the requirements discussed in this Section ("PHAS Inspections"). This Action Plan will be subject to the procedures of paragraphs 36-42.

VII. City Funding

63. To assist NYCHA in its compliance with this Agreement, including Exhibit A and Exhibit B, and implementation of Action Plans adopted hereunder, the City agrees to provide financial support to NYCHA as follows:

    a. to provide the capital funding to NYCHA through Fiscal Year ("FY") 2027 reflected in Exhibit C under the heading "Capital Items," including allocations that flow to NYCHA developments through the Department of Housing Preservation and Development. NYCHA and the Monitor shall have maximum flexibility as provided by law with respect to the projects for which these funds are utilized. Nothing in this paragraph shall be construed as authorizing the shifting of funds from a particular initiative or project to another initiative or project;

    b. to provide the annual operating funds to NYCHA through FY 2027 reflected in Exhibit C under the heading "Expense Items." NYCHA and the Monitor shall have maximum flexibility as provided by law with respect to the projects for which these funds are utilized. Nothing in this paragraph shall be construed as authorizing the shifting of funds from a particular initiative or project to another initiative or project;

    c. to not impose new or increased payment requirements or fees on NYCHA except for payments such as water fees imposed uniformly on New York City landlords;

    d. in addition to the funding in subparagraphs (a) and (b) above, to provide a total of $1.0 billion in funding for capital expenses as provided in an Action Plan over the four fiscal years following the Effective Date of this Agreement; and

    e. to provide, for the duration of the Agreement or for at least each of the six fiscal years after the first four fiscal years following the Effective Date of this Agreement, whichever is later, an additional $200 million per year in funding for capital expenses as provided in an Action Plan to NYCHA in addition to the funding in subparagraphs (a) and (b) above.

64. If this Agreement is terminated pursuant to section XIV of this Agreement, or in the event the Secretary exercises his authority under Section 6(j) of the Housing Act as described below, the City's funding obligations shall be affected as follows:

    a. If the Agreement is terminated pursuant to the provisions of section XIV, the City's funding obligations under subparagraphs 63(a)-(e) of this Agreement shall not be affected.

b. If the Secretary exercises his authority under 42 U.S.C. § 1437d(j)(3)(A)(iv) to take possession of a portion of NYCHA's public housing program following a recommendation of the Monitor, and the subsequent concurrence of NYCHA's CEO, for the limited purpose of (1) abrogating any contract to which the United States or an agency of the United States is not a party that, in the written determination of the Secretary (which shall include the basis for such determination), substantially impedes correction of the substantial default, and after the Secretary determines that reasonable efforts to renegotiate such contract have failed, pursuant to 42 U.S.C. § 1437d(j)(3)(D)(i)(I); and/or (2) directing NYCHA not to comply with any State or local law relating to civil service requirements, employee rights (except civil rights), procurement, or financial or administrative controls that, in the Secretary's written determination (which shall include the basis for such determination), substantially impedes correction of the substantial default, pursuant to 42 U.S.C. § 1437d(j)(3)(D)(i)(V), then the City's funding obligations under subparagraphs 63(a)-(e) of this Agreement shall not be affected.

c. The Monitor's recommendation under subparagraph 64.b must state in writing the basis for the Monitor's belief that such contract substantially impedes correction of the substantial default and that reasonable efforts to renegotiate such contract have failed and/or that a State or local law substantially impedes compliance with this Agreement. Prior to making the recommendation, the Monitor must have described the contract, state or local law in a quarterly report and explained the manner in which the Monitor believes such contract, state or local law impedes correction of the substantial default. The Monitor's recommendation shall specifically explain any potential impact on the overall operations of NYCHA and any potential disruption to NYCHA residents, and shall consider public health and safety, cost, and such other factors deemed relevant by the Monitor.

d. The CEO may non-concur with the Monitor's recommendation if the CEO determines that the action recommended by the Monitor is not in the best interest of NYCHA residents. In such circumstance, the CEO shall provide to the Monitor and the Secretary a written determination of non-concurrence and the reasons for the non-concurrence.

e. If the Secretary, without a recommendation of the Monitor and concurrence of the CEO, exercises his authority under 42 U.S.C. § 1437d(j)(3)(A)(iv) to take possession of a portion of NYCHA's public housing program for the limited purpose of (1) abrogating any contract to which the United States or an agency of the United

States is not a party that, in the written determination of the Secretary (which shall include the basis for such determination), substantially impedes correction of the substantial default, and after the Secretary determines that reasonable efforts to renegotiate such contract have failed, pursuant to 42 U.S.C. § 1437d(j)(3)(D)(i)(I); and/or (2) directing NYCHA not to comply with any State or local law relating to civil service requirements, employee rights (except civil rights), procurement, or financial or administrative controls that, in the Secretary's written determination (which shall include the basis for such determination), substantially impedes correction of the substantial default, pursuant to 42 U.S.C. § 1437d(j)(3)(D)(i)(V), then the City's funding obligations under subparagraphs 63(a)-(e) of this Agreement shall terminate.

f. If the Secretary exercises his or her authority to (1) solicit competitive proposals from other public housing agencies or private housing management agents to manage all or substantially all of NYCHA or take any action under 42 U.S.C. § 1437d(j)(3)(A)(i); (2) petition the United States District Court for the appointment of a receiver or take any action under 42 U.S.C. § 1437d(j)(3)(A)(ii); (3) solicit competitive proposals from other public housing agencies or any private entities to oversee NYCHA's Capital Fund or take any action under 42 U.S.C. § 1437d(j)(3)(A)(iii); (4) take possession of all or part of NYCHA under 42 U.S.C. § 1437d(j)(3)(A)(iv), other than as provided above in subparagraphs 64.b to 64.d; or (5) require NYCHA to make arrangements under 42 U.S.C. § 1437d(j)(3)(A)(v) other than this Agreement or modifications to this Agreement made pursuant to section XIII, then the City's funding obligations under subparagraphs 63.a though 63.e of this Agreement shall terminate.

65. The City's funding obligations under this Agreement shall not be reduced by any funding provided by any other sources (including Borough President or City Council funds). The City shall not set off its obligation to pay funds under this Agreement against any funds that may now or in the future be due from NYCHA to the City, nor shall it exercise any right of recoupment related thereto.

66. Subject to the following paragraph 67, the funding pursuant to subparagraphs (d) and (e) of paragraph 63 shall be provided by the City to NYCHA as follows: the Monitor (or NYCHA at the Monitor's direction) will submit a project description and scope of work to the City's Office of Management and Budget ("OMB"). OMB shall approve this submission if the funds requested are within the dollar amounts described in subparagraphs (d) and (e) of paragraph 63. Subsequent to approval, NYCHA will submit the corresponding contracts to the City Comptroller for registration to the extent required by law.

67. In the event that the total amount of funds provided by the City pursuant to subparagraphs (a), (b), (d), and (e) of paragraph 63 have not been paid by the City to NYCHA during the time periods described in those subparagraphs, the unpaid amounts will be carried over and added to the funds available to NYCHA in the immediately following fiscal year and, to the extent unspent in the next fiscal year, shall continue to be carried over and added to each subsequent fiscal year until spent.

68. Neither the Monitor nor NYCHA shall use City capital funds for other than capital projects.

69. NYCHA and the Monitor may request, in light of capital funds provided by the City under paragraph 63, that HUD repurpose HUD capital funds for use for noncapital purposes.

70. All funds described in subsections (d) and (e) of paragraph 63 shall be spent only pursuant to an Action Plan approved by the Monitor and designed to meet NYCHA's obligations under the Agreement, and work paid for by such funds shall be performed under the direction of the Chair and General Manager subject to the terms of this Agreement.

71. Nothing in this Agreement precludes the City, at its exclusive option or as otherwise provided by law, from authorizing additional capital funding for NYCHA.

72. In the event that an undue financial hardship results in the City's financial inability to pay the full amount pursuant to paragraph 63, the City shall submit to the Monitor, HUD, SDNY, and NYCHA, within 45 days of the Monitor's request, a certification signed by the Mayor of the City and the City Comptroller setting forth that the City is unable to pay the entire amount requested, providing in detail the amount the City has the financial ability to pay ("Available Amount"), a description of the causes and extent of the undue financial hardship, and an explanation as to how the Available Amount was determined. The certification shall include a date when the City will be able to make available more or all of the funds due. If the City is unable to provide such a date in the certification, the City shall provide a certification every 90 days until it is able to provide a date ("Future Availability Date") by which it will make available more or all of the remaining funds (collectively, the "Unpaid Amount"). The City will pay the Available Amount as provided in paragraph 63. If the City and HUD (after consultation with SDNY) agree that there exists undue financial hardship on the part of the City, then NYCHA or the Monitor may seek a modification of applicable Action Plans or other obligations pursuant to paragraph 85.

73. In any dispute regarding the existence and amount of undue financial hardship within the meaning of paragraph 72, the City shall bear the burden of proof.

VIII. Regulatory Relief

74. The Monitor shall assist NYCHA in seeking such regulatory relief from HUD, the City of New York, and the State of New York, as he or she deems is necessary for NYCHA to comply expeditiously and in a cost-effective manner with its obligations under this Agreement.

75. HUD shall consider any requests under paragraph 74 in accordance with all applicable legal requirements and principles of administrative procedure. Nothing in this Agreement limits HUD's discretion in considering such requests. HUD and NYCHA shall create a working group on regulatory relief in order to further the purposes of this Agreement. This working group shall facilitate the prompt response to NYCHA's waiver requests. HUD shall endeavor to respond to NYCHA's pending waiver requests within a reasonable timeframe from the Effective Date of this Agreement.

IX. HUD Actions

76. HUD agrees to continue providing public housing operating and capital funds to NYCHA in accordance with its rules and regulations, including the funding formulas for operating and capital funds. In accordance with these rules, regulations and formulas, HUD will not offset or reduce the formula grants by the amount of the funds the City is providing to NYCHA pursuant to this Agreement.

77. HUD, in its discretion, may provide available technical assistance to NYCHA to facilitate compliance with the Work Plan.

78. HUD agrees to support NYCHA's Section 8 conversion programs known as PACT, as permitted by law.

X. Force Majeure

79. "Force Majeure," for purposes of this Agreement, is defined as any event arising from causes beyond the control of NYCHA that delays or prevents the performance of any obligation under this Agreement despite NYCHA's best efforts to fulfill the obligation. The requirement that NYCHA exercise "best efforts to fulfill the obligation" includes using best efforts to anticipate any potential Force Majeure event and best efforts to address the effects of any potential Force Majeure event (a) as it is occurring and (b) following the potential Force Majeure, such that the delay and any adverse effects of the delay are minimized. "Force Majeure" does not include NYCHA's financial inability to perform any obligation under this agreement.

80. If any event occurs or has occurred that may delay the performance of any obligation under this Agreement that NYCHA or the City intends to assert was caused by a force majeure event, NYCHA or the City shall provide notice to the Monitor, HUD, EPA and SDNY (if the event affects the performance of requirements contained in Exhibit A or Action Plans implementing Exhibit A)

within 30 days of when NYCHA or the City first knew that the event might cause a delay and provide NYCHA or the City's rationale for attributing such delay to a force majeure event. The Monitor, HUD, EPA or SDNY may request further information about the assertion of force majeure.

81. If HUD and, if the event affects the performance of requirements contained in Exhibit A or Action Plans implementing Exhibit A, SDNY agree that the delay or anticipated delay is attributable to a force majeure event, the time for performance of the obligations under this Agreement that are affected by the force majeure event will be extended for such time as is necessary to complete those obligations in light of the force majeure event. An extension of the time for performance of the obligations affected by the force majeure event shall not, of itself, extend the time for performance of any other obligation. HUD and SDNY (if the event affects the performance of requirements contained in Exhibit A or Action Plans implementing Exhibit A) will notify NYCHA and the City in writing of the length of the extension, if any, for performance of the obligations affected by the force majeure event.

XI. Notices

82. Unless otherwise specified in this Agreement, whenever notifications, submissions, or communications are required by this Agreement, they shall be made in writing and addressed as follows:

As to HUD by mail:	Dane Narode U.S. Department of HUD Office of General Counsel 1250 Maryland, Ave, SW, Suite 200 Washington, DC 20024
As to HUD by email:	dane.m.narode@hud.gov
As to SDNY by mail:	Robert William Yalen, AUSA U.S. Attorney's Office 86 Chambers St., 3rd Floor New York, NY 10007
As to SDNY by email:	robert.yalen@usdoj.gov monica.folch@usdoj.gov jacob.lillywhite@usdoj.gov talia.kraemer@usdoj.gov sharanya.mohan@usdoj.gov

As to NYCHA by mail:	Stanley Brezenoff Chair and Chief Executive Officer New York City Housing Authority 250 Broadway New York, NY 10007 Debo P. Adegbile Wilmer Cutler Pickering Hale & Dorr LLP 7 World Trade Center New York, NY 10007
As to NYCHA by email:	stanley.brezenoff@nycha.nyc.gov debo.adegbile@wilmerhale.com
As to the City by mail:	Zachary W. Carter Corporation Counsel New York City Law Department 100 Church Street New York, NY 10007
As to the City by email:	zcarter@law.nyc.gov
As to EPA by mail:	Chief, Pesticide and Toxic Substances Branch U.S. EPA 2890 Woodbridge Avenue Edison, NJ 08837
As to EPA by email:	gorman.john@epa.gov

83. HUD, EPA. SDNY, NYCHA and the City may, by written notice to the others, change its designated notice recipient or notice address provided above.

XII. Effective Date

84. This Agreement shall become effective upon execution.

XIII. Modification

85. The terms of this Agreement may be modified only by a subsequent written agreement signed by HUD (with the concurrence of SDNY), NYCHA, and the City.

XIV. Termination

86. The Criteria for Termination are that:

    a. NYCHA has been in substantial compliance with its obligations under this Agreement for at least the prior twelve months; and

    b. NYCHA is willing and able, following termination, to comply with applicable laws.

87. If, at any time more than five years after the Effective Date, NYCHA believes that it has satisfied the Criteria for Termination set forth in paragraph 86, then it may file a written request with HUD to terminate all or parts of this Agreement. If HUD after consultation with SDNY (and EPA, as to Exhibit A) agrees that NYCHA has satisfied the Criteria for Termination, with respect to the entire Agreement or with respect to the particular provisions sought to be terminated, then, within 10 days of making that determination, HUD will agree to terminate all or parts of the Agreement; provided, however, that to the extent the request for termination relates in whole or part to the requirements of Exhibit A, HUD and SDNY shall jointly decide whether the Criteria for Termination are met. If HUD (or HUD and SDNY in the case of Exhibit A) determines that one or more of the Criteria for Termination are unsatisfied, then HUD (or HUD and SDNY jointly in the case of Exhibit A) shall reject NYCHA's request. In this event, HUD (or HUD and SDNY jointly in the case of Exhibit A) shall notify NYCHA in writing of the criteria which are unsatisfied.

88. HUD may determine at any time and in its discretion to lift its determination of substantial default. Such event shall not terminate this Agreement.

XV. Dispute Resolution

89. If, at any time prior to the termination of this Agreement, the Monitor, HUD, or SDNY believes that NYCHA or the City is not in compliance with any obligation under this Agreement, HUD in consultation with SDNY shall consider whether such noncompliance may be addressed through informal dispute resolution, prior to pursuing Enforcement under Section XVI. If so, HUD, SDNY, the Monitor, NYCHA, and the City, as appropriate, shall make good faith efforts to meet and confer regarding a resolution of the dispute.

XVI. Enforcement

90. If the Monitor finds that NYCHA has failed to substantially comply with any of the requirements of this Agreement, including the procedural and substantive requirements in Exhibits A and B, or has failed to adopt or use best efforts to implement an Action Plan or Organizational Plan as required under the terms of this Agreement, then the Monitor may remedy such noncompliance as follows:

a. The Monitor shall inform NYCHA in writing of the noncompliance and provide NYCHA 30 days in which to correct the noncompliance or to propose a plan for achieving substantial compliance that is acceptable to the Monitor.

b. If NYCHA fails to correct the noncompliance within 30 days, fails to propose a plan for achieving substantial compliance that is acceptable to the Monitor within 30 days, or fails to comply with a plan for achieving substantial compliance approved by the Monitor, the Monitor may propose a remedial directive requiring NYCHA to take specific action correct the noncompliance, which actions may include, but are not limited to, requiring NYCHA to (1) allocate or reallocate personnel; (2) allocate or reallocate resources; (3) take or refrain from specific actions; (4) hire independent contractors; (5) hire independent experts; or (6) increase NYCHA staff for specific functions. The Monitor shall consider public health and safety, cost, and other factors deemed relevant by the Monitor in developing a remedial directive.

c. The Monitor shall submit the proposed remedial directive for review to NYCHA, HUD, and SDNY 30 days in advance of the proposed date for the Monitor to issue the remedial directive. NYCHA may submit comments to HUD and SDNY within 21 days thereafter. HUD and SDNY shall consider the Monitor's proposal and NYCHA's comments.

d. After considering the submissions and consultation with the Monitor, HUD may approve the Monitor's proposal, approve NYCHA's proposal, approve either proposal with modifications, or reject the proposals. NYCHA and the Monitor shall be provided with notice of and a reasonable opportunity to comment on any non-de minimis modifications to the proposals submitted before a modified proposal goes into effect.

e. Upon approval of a remedial directive by HUD, the Monitor may issue a remedial directive.

91. If, after the issuance of a remedial directive, the Monitor finds that NYCHA has failed to comply with the remedial directive; continues to fail in using best efforts to implement the Plan addressed by the remedial directive; or continues to fail to meet the requirements in Exhibit A or Exhibit B addressed by the remedial directive, then NYCHA agrees that the Monitor may take such actions on NYCHA's behalf as the Monitor deems necessary to implement the remedial directive directly. The Monitor shall submit the proposed actions to be taken on NYCHA's behalf to NYCHA and to HUD with a copy to SDNY (or in the case of Exhibit A or Action Plans related thereto, to HUD and SDNY jointly) 30 days in advance of the proposed date for the Monitor to take such action. NYCHA may

submit comments to HUD and SDNY within 14 days thereafter. Upon concurrence in the remedial directive by HUD (after consultation with SDNY, or in the case of Exhibit A or Action Plans related thereto, by HUD and SDNY jointly), the Monitor may issue a remedial directive.

92. Paragraphs 90 and 91 shall not be used to address failures by NYCHA that are de minimis.

93. Nothing in this Agreement should be construed to limit HUD's or EPA's statutory or regulatory authority. HUD and EPA reserve all of their rights under applicable law, including, but not limited to, the right to appoint, or to seek judicial appointment of, a receiver for substantial default, as well as all other administrative remedies and authority.

94. In addition to all otherwise available remedies, if NYCHA or the City fails to comply with any part of this Agreement, HUD, EPA, or the United States on behalf of HUD and/or EPA, may pursue any remedy available to them, including to enforce this agreement by seeking injunctive relief or an order of specific performance in the U.S. District Court of the Southern District of New York. With respect to any such action to enforce this agreement:

    a. The City and NYCHA agree that a non-de minimis failure to comply with this Agreement causes an irreparable harm to the United States and warrants the issuance of injunctive relief for specific performance.

    b. The City and NYCHA agree that they waive any defenses, legal or equitable, that might exist with respect to such action, except the defenses that there was no non-de minimis failure of compliance with the Agreement and that the relief proposed is not necessary to remedy the noncompliance.

    c. The City and NYCHA agree that expedited resolution is required. The City and NYCHA consent to expedited resolution and to an expedited schedule for resolution of the dispute on the merits.

95. Nothing in this Agreement should be construed to limit the authority of HUD, EPA or the United States on behalf of HUD and/or EPA, to seek judicial enforcement of this Agreement.

XVII. Effect of Agreement; Waiver

96. This Agreement shall not be construed to create rights in, or grant any cause of action to, anyone not a Party to this Agreement, other than EPA or SDNY.

97. This Agreement shall not be construed to create any greater rights of NYCHA or the City against the United States (including HUD) than would otherwise exist.

98. NYCHA and the City waive any claims that exist as of the Execution Date against the United States (including HUD) and any of its employees and agents related to the subject matter of this Agreement.

99. NYCHA and the City waive any claims against the United States (including HUD) regarding the validity of this Agreement or any modifications thereto.

100. NYCHA and the City agree not to contest HUD's determination that NYCHA is in substantial default within the meaning of Section 6(j)(3)(A) of the U.S. Housing Act.

101. NYCHA and the City agree not to contest HUD's determination that the terms of this Agreement constitute an "arrangement[] acceptable to the Secretary and in the best interests of the public housing residents . . . for managing all, or part, of the public housing administered by the agency or of the programs of the agency" within the meaning of 42 U.S.C. § 1437d(j)(3)(A)(v).

102. This Agreement shall not be construed to limit the rights of the United States (including but not limited to HUD, EPA and SDNY) to seek relief under the Housing Act or under other federal laws or regulations. The United States reserves all legal and equitable remedies to address any potential imminent and substantial endangerment to the public health or welfare or the environment arising at, or posed by, NYCHA's conduct, whether related to matters described herein or otherwise.

103. In any subsequent administrative or judicial proceeding initiated by the United States (including but not limited to HUD, EPA and SDNY) for injunctive relief, civil penalties, or other appropriate relief against NYCHA, NYCHA shall not assert, and may not maintain, any defense or claim based upon the principles of waiver, res judicata, collateral estoppel, issue preclusion, claim preclusion, claim-splitting, or other defenses based upon any contention that the claims raised by the United States in the subsequent proceeding were or should have been brought in the Complaint or addressed in the Agreement.

104. This Agreement is not a permit, or a modification of any permit, under any federal, state, or local laws or regulations. This Agreement does not remove any responsibility of NYCHA for achieving and maintaining complete compliance with all applicable federal, state, and local laws, regulations, and permits, and NYCHA's compliance with this Agreement shall be no defense to any action commenced pursuant to any such laws, regulations, or permits, except as set forth herein. HUD and SDNY do not, by entering into this Agreement, warrant or aver in any manner that NYCHA's compliance with any aspect of this Agreement will result in compliance with any provisions of federal, state, or local laws, regulations, or permits.

105. This Agreement does not limit or affect the rights of the United States (including but not limited to HUD, EPA and SDNY) against any third parties not

party to this Agreement (including any present or former employees, officers, or board members), nor does it limit the rights of third parties, not party to this Agreement, against NYCHA, except as otherwise provided by law.

XVIII. Litigation Claims

106. HUD and SDNY agrees that within 14 days of appointment of the Monitor SDNY will file appropriate papers with the U.S. District Court to obtain dismissal, without prejudice, of the Complaint.

107. NYCHA agrees not to object to a motion to reinstate any Count of the Complaint in the event of breach of this Agreement by NYCHA. In such a case, NYCHA will not assert any defense of laches or untimeliness with respect to such Count. NYCHA hereby agrees to toll the running of any limitations period with respect to any civil claims asserted by the United States based on the allegations of the Complaint.

XIX. Signatories/Service

108. Each undersigned representative of HUD, NYCHA, and the City certifies that he or she is fully authorized to enter into the terms and conditions of this Agreement.

109. This Agreement may be signed in counterparts, and its validity shall not be challenged on that basis.

XX. Integration

110. This Agreement, including Exhibits A through C, shall express the entire agreement of the parties hereto, written or oral with respect to resolving the substantial default of NYCHA.

111. This Agreement shall not supplant nor supersede any obligations of NYCHA under the ACC or any other agreements between NYCHA and HUD.

112. If there is any conflict between this Agreement and a provision of any other existing agreement, HUD shall in its sole discretion determine which provisions shall prevail.

XXI. Information Collection and Retention

113. The United States and its representatives, including attorneys, contractors, and consultants, will have continued access to NYCHA data and personnel to the extent necessary (in the United States' unreviewable discretion) for oversight of implementation of the Agreement.

114. Until one year after the termination of this Agreement, NYCHA and the City shall retain, and shall instruct its contractors and agents to preserve, all non-

identical copies of all documents, records, or other information (including documents, records, or other information in electronic form) that relate in any manner to NYCHA's and the City's performance of its obligations under this Agreement and that meet criteria specified by the Monitor, who shall consider cost and the purposes of this Agreement in setting forth such criteria.

115. At the conclusion of the information-retention period provided in the preceding paragraph, NYCHA and the City shall notify HUD, EPA, and SDNY at least 90 days prior to the destruction of any documents, records, or other information subject to the requirements of the preceding paragraph and, upon request by HUD or SDNY, NYCHA and the City shall deliver any such documents, records, or other information to the United States.

116. This Agreement in no way limits or affects any right of entry and inspection, or any right to obtain information, held by the United States (including HUD and EPA) pursuant to applicable federal laws, regulations, or permits, nor does it limit or affect any duty or obligation of NYCHA and the City to maintain documents, records, or other information imposed by applicable federal or state laws, regulations, or permits.

117. NYCHA and the City agree that the United States may retain and use documents and information produced to it by NYCHA pursuant to Civil Investigative Demand or otherwise in the course of the United States' investigation of this matter, and in particular waives any limitation on the retention or use of such documents and information contained in 31 U.S.C. § 3733.

118. Nothing in this Agreement limits any document retention obligations that NYCHA or the City may have under applicable law or regulation.

XXII. June 11, 2018 Consent Decree

119. The June 11, 2018 Consent Decree is null and void, except with respect to the admissions contained in paragraph 7 of the Consent Decree, which NYCHA ratifies and reaffirms.

XXIII. Construction and Severability

120. Each party has participated in the drafting and preparation of this Agreement and this Agreement shall be construed as a whole, according to its fair meaning and not for or against any party.

121. If any part of this Agreement is found to be contrary to law, that part may be severed from the Agreement and the remainder of the Agreement shall remain in full force and effect. The remaining Agreement shall be construed as far as is lawful and practicable to enforce the overall intent of the original Agreement.

FOR THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:

Dated: January 31, 2019
New York, New York

BENJAMIN S. CARSON, SR., M.D.
Secretary
U.S. Department of Housing and Urban Development

451 7th St., SW
Washington, DC 20410

FOR THE UNITED STATES OF AMERICA:

Dated: January 31, 2019
New York, New York

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FOR NYCHA:

Dated: January 31, 2019
New York, New York

Stanley Brezenoff
Chair and Chief Executive Officer
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FOR THE CITY OF NEW YORK:

Dated: January 31, 2019
New York, New York

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EXHIBIT A – REQUIREMENTS FOR LEAD-BASED PAINT

A. In General

1. Terms used with respect to lead-based paint compliance but not expressly defined herein shall have the meaning contained in 24 C.F.R. part 35, and 40 C.F.R. part 745.

2. NYCHA shall comply with 24 C.F.R. part 35, and 40 C.F.R. part 745.

3. Nothing herein limits NYCHA's obligations under any other federal, state, or local laws or regulations governing lead-based paint or lead-based paint hazards.

B. Priority Action Units and Common Areas

4. No later than 30 days after execution of this Agreement, NYCHA shall provide the United States the following:

   a. A report identifying all developments that meet the following requirements: (i) they were built prior to January 1, 1978, and (ii) they are not exempt pursuant to 24 C.F.R. § 35.115, as a result of an inspection, an abatement, or otherwise (the "Lead Paint Developments"). Such report will identify each unit (including each "child-occupied facility") within such Lead Paint Developments that is not exempt pursuant to 24 C.F.R. § 35.115 ("Lead Paint Unit").

   b. A report (the "Immediate Action List") identifying the subset of Lead Paint Units that NYCHA has reason to believe are occupied or routinely visited by a child under the age of 6. Routine visiting shall be determined in conformance with the first sentence of the definition of child-occupied facility at 40 C.F.R. § 745.83.

5. Within 30 days of execution of this Agreement, NYCHA shall comply with the following requirements:

   a. Perform at least one visual assessment in accordance with 24 C.F.R. § 35.1355 of each Lead Paint Unit on the Immediate Action List, except insofar as that Lead Paint Unit received a compliant visual assessment within the preceding 12 months; and

   b. Eliminate any lead-based paint hazards in Lead Paint Units identified on the Immediate Action List through the performance of interim controls in accordance with 24 C.F.R. § 35.1330, or through abatement in accordance with 24 C.F.R. § 35.1325.

6. No later than 90 days after execution of this Agreement, NYCHA shall submit to the United States documents sufficient to show NYCHA's basis for claiming that particular pre-1978 developments are exempt pursuant to 24 C.F.R. § 35.115. To the extent that

HUD and SDNY thereafter notify NYCHA that they reject that determination, such developments, units and common areas will no longer be considered by NYCHA to be exempt pursuant to 24 C.F.R. § 35.115. If HUD and SDNY (a) object to the exemption for a particular development, unit, or common area, and (b) the lack of exemption would have led to the inclusion of additional units or common areas on the Immediate Action List, NYCHA shall within 30 days thereafter comply with paragraph 5 as to such additional apartments.

7. NYCHA may conduct a new lead-based paint inspection (in accordance with 24 C.F.R. § 35.1320(a)) of any Lead Paint Unit on the Immediate Action List. If that inspection determines that no lead-based paint is present in the unit, NYCHA may remove the unit from the Immediate Action List if NYCHA provides the inspection report to the United States and to the resident household within seven days of NYCHA's receipt of the inspection report, and the United States does not object to the removal of the unit from the Immediate Action List within 14 days of receiving such inspection results.

C. Abatement of Lead-Based Paint

8. Within five years of the execution of this Agreement, NYCHA shall abate all lead-based paint at the Harlem River Houses and the Williamsburg Houses (the "Early Abatement Developments") in accordance with 40 C.F.R. part 745 subpart L.

9. Within ten years of the execution of this Agreement, NYCHA shall abate, in accordance with 40 C.F.R. part 745 subpart L, all lead-based paint in 50% of apartment units that contain lead-based paint, and interior common areas that contain lead-based paint in the same building as those units. Units and interior common areas in the Early Abatement Developments shall be included in calculating compliance with the requirements in this paragraph.

10. Within fifteen years of the execution of this Agreement, NYCHA shall abate, in accordance with 40 C.F.R. part 745 subpart L, all lead-based paint in 75% of apartment units that contain lead-based paint, and interior common areas that contain lead-based paint in the same building as those units. Units and interior common areas abated pursuant to paragraphs 8 and 9 shall be included in calculating compliance with the requirements in this paragraph.

11. Within twenty years of the execution of this Agreement, NYCHA shall abate, in accordance with 40 C.F.R. part 745 subpart L, all lead-based paint in 100% of apartment units that contain lead-based paint, and interior common areas that contain lead-based paint in the same building as those units.

12. NYCHA shall abate exterior common areas that contain lead-based paint. NYCHA shall develop an Action Plan setting forth an appropriate timeline for such abatement, prioritizing common areas posing a higher risk of exposure to children.

13. For purposes of paragraphs 8, 9, 10, 11 and 12, "common areas" and "abatement" shall have the meaning in 40 C.F.R. part 745, subpart L. However, with respect to abatement, the Monitor shall determine whether NYCHA will not be able to comply with the ongoing maintenance, reevaluation, and other obligations associated with using enclosure, encapsulation, encasement, or other abatement measures that retain the lead-based paint in place ("alternative abatement methods") (24 C.F.R. §§ 35.1120(c) and 35.1355, and see the HUD Guidelines for the Evaluation and Control of Lead-Based Paint Hazards in Housing (https://www.hud.gov/program_offices/healthy_homes/lbp/hudguidelines), especially chapters 6 and 11 through 15), and if the Monitor determines that NYCHA will not be able to, then "abatement" in paragraphs 8, 9 and 11 shall mean the removal of lead-based paint in compliance with 40 C.F.R. part 745 subpart L, but shall not include alternative abatement methods, and NYCHA shall abate by removal any lead-based paint that had been abated by an alternative abatement method. After a finding by that Monitor that NYCHA will not be able to comply with its obligations associated with using alternative abatement methods, upon the Monitor subsequently finding that NYCHA will be able to comply, NYCHA may use such methods along with abatement methods that remove lead-based paint.

14. In performing any lead paint abatements, whether pursuant to paragraphs 8 and 9 or otherwise, NYCHA shall comply with the following, in addition to other legal requirements:

a. NYCHA shall ensure that a certified supervisor is onsite or otherwise available in accordance with 40 C.F.R. § 745.227(e).

b. NYCHA shall notify EPA of lead-based paint abatement activities electronically using EPA's Central Data Exchange (CDX) in accordance with 40 C.F.R. § 745.227(e)(4)(vii).

c. NYCHA shall prepare and implement written occupant protection plans for all abatement projects in accordance with 40 C.F.R. § 745.227(e)(5).

d. NYCHA shall specify methods of collection and lab analysis in accordance with 40 C.F.R. § 745.227(f).

e. NYCHA shall ensure that a clearance examination is performed, and a clearance examination report provided by a lead-based paint inspector/risk assessor certified and licensed as applicable for the property location, in accordance with 40 C.F.R. § 745.227(e)(8)-(9). The lead-based paint inspector/risk assessor must be independent of the lead-based paint abatement firm, supervisor, and contractors performing the abatement work.

f. NYCHA shall ensure that the certified supervisor on each abatement project prepares an abatement report in accordance with 40 C.F.R. § 745.227(e)(10).

g. NYCHA shall maintain records in accordance with 40 C.F.R. § 745.227(i) and 24 C.F.R. § 35.175.

D. Lead-Safe Work Practices

15. NYCHA shall comply with lead-safe work practice requirements set forth in the Lead Safe Housing Rule, 24 C.F.R. part 35, subparts B-R, and the Renovation, Repair, and Painting Rule, 40 C.F.R. part 745, subpart E, when directing or performing renovation (as that term is defined in 40 C.F.R. § 745.83) or maintenance work in Lead Paint Developments to which lead-safe work practices apply, including by:

a. Establishing and maintaining sufficient information in NYCHA's renovation and maintenance computer systems to readily identify renovation and maintenance projects involving work to which the lead-safe work practices regulations apply in accordance with 24 C.F.R §§ 35.1330, 35.1350 and 40 C.F.R. §§ 745.85, 745.89;

b. Ensuring that only properly trained and certified firms and workers are assigned to perform work to which lead-safe work practices apply in accordance with 24 C.F.R §§ 35.1330, 35.1350 and 40 C.F.R. §§ 745.85, 745.90;

c. Obtaining and maintaining certification as a certified renovation firm if any of the workers described in this paragraph are NYCHA employees, and the work they do is covered by 40 C.F.R. part 745, subpart E (or, if applicable in the future, the appropriate provisions of subpart Q), in accordance with 40 C.F.R. §§ 745.81, 745.89;

d. Ensuring supplies necessary to perform lead-safe work practices in accordance with 24 C.F.R § 35.1350 and 40 C.F.R. § 745.85 are readily available to trained and certified workers;

e. Ensuring that firms and workers assigned to perform renovation or maintenance work to which lead-safe work practices apply use the RRP Renovation Checklist and establish and maintain records necessary to demonstrate compliance with the RRP Rule in accordance with 40 C.F.R. § 745.86;

f. Ensuring that residents of units and developments in which renovation or maintenance work to which lead-safe work practices apply will be performed are informed of the work to be performed and the risks involved in accordance with 24 C.F.R § 35.1345 and 40 C.F.R. §§ 745.84 and 745.85;

g. Retaining records demonstrating compliance with the regulations set forth at 24 C.F.R. § 35.125 and 40 C.F.R. § 745.84.

h. Containing or causing to be contained any work area to which lead-safe work practices will apply by isolating the work area and waste generated so that no dust or debris leaves the work area in accordance with 24 C.F.R. § 35.1345 and 40 C.F.R. § 745.85(a);

i. Containing, collecting, and transporting waste from the renovation in accordance with 40 C.F.R. § 745.85(a)(4);

j. Performing cleanup of any work area to which lead-safe work practices apply until no dust debris or residue remains in accordance with 24 C.F.R. §§ 35.1345, 35.1335 and 40 C.F.R. § 745.85(a) and (b), and conducting and passing a clearance examination in accordance with 24 C.F.R. § 35.1340 (including follow-up as required by that section's subsection (e) after clearance failure(s)), as provided by 40 C.F.R. § 745.85(c).

E. Visual Assessments

16. Each calendar year and at unit turnover, NYCHA shall perform visual assessments in Lead Paint Developments in accordance with 24 C.F.R. § 35.1355(a)(2).

17. Within one year of the execution of this Agreement, NYCHA shall control deteriorated lead-based paint identified by visual assessments in compliance with 24 C.F.R. § 35.1120(b)(1) and (2); except that for a visual assessment performed in an apartment unit that has not had a previous compliant visual assessment within the preceding twelve months, all corrections of lead-based paint hazards shall be made within thirty days of the visual assessment.

F. Biennial Risk Assessment Reevaluations

18. Within two years of the execution of this Agreement, NYCHA shall conduct risk assessment reevaluations of all NYCHA housing that contains lead-based paint in accordance with 24 C.F.R. § 35.1355.

G. EIBLL/EBLL-Triggered Risk Assessments, Investigations and Abatement

19. Within 30 days of appointment of the Monitor, NYCHA shall provide the Monitor a list (the "EIBLL/EBLL-Triggered Risk Assessment List") of all units, common areas servicing such units, and developments in which neither an environmental investigation nor a risk assessment was performed since the date of: (a) the reporting to NYCHA (if on or after July 13, 2017) of a case of a child under age 6 with an elevated blood lead level (EBLL) (as those terms are defined in 24 C.F.R. § 35.110, as amended by 82 Fed. Reg. 4151 (Jan. 13, 2017)) living in such unit and development, or (b) the reporting to NYCHA (if before July 13, 2017) of a case of a child with an elevated blood lead level (EIBLL) (as those terms were defined in 24 C.F.R. § 35.110, prior to amendment by 82 Fed. Reg. 4151 (Jan. 13, 2017)) living in such unit and development.

20. After providing the Monitor the EIBLL/EBLL-Triggered Risk Assessment List, within a timeframe acceptable to the Monitor, NYCHA shall confirm that the New York City

Department of Health and Mental Hygiene ("NYC DOHMH") has performed an environmental investigation in accordance with 24 C.F.R. §§ 35.110, 1130, in any unit and common areas servicing that unit identified in the EIBLL/EBLL-Triggered Risk Assessment List. To the extent the NYC DOHMH has not performed an environmental investigation in accordance with 24 C.F.R. §§ 35.110, 1130, in any unit and common areas servicing that unit identified in the EIBLL/EBLL-Triggered Risk Assessment List, NYCHA shall perform such environmental investigation within a timeframe acceptable to the Monitor.

21. After issuing or receiving the report of the environmental investigation, within a timeframe acceptable to the Monitor, NYCHA shall complete the abatement of identified lead-based paint hazards in accordance with 24 C.F.R. §§ 35.1130(c) and 35.1325.

22. NYCHA shall perform risk assessments for all other units in the building in which a child under age 6 resides or is expected to reside on the date lead-based paint hazard reduction under Paragraph 21 is complete, and common areas servicing those units in the developments identified in the EIBLL/EBLL-Triggered Risk Assessment List, within a timeframe acceptable to the Monitor.

H. EBLL Reporting

23. NYCHA shall report to HUD each confirmed case of a child with an elevated blood lead level within 5 business days of being so notified in accordance with 24 C.F.R. § 35.1130.

24. No later than 60 days after the execution of this Agreement, NYCHA shall enter into a written agreement with the NYC DOHMH resolving any barriers to the sharing of information relating to resident children's blood lead levels necessary for NYCHA to make disclosures to HUD in accordance with paragraph 23 and 24 C.F.R. § 35.1130, and shall provide a copy of such agreement to the United States.

25. NYCHA shall report to the Monitor and to the United States any NYC DOHMH Commissioner order to abate lead-based paint within five days of receiving such order.

26. On and after the Effective Date, to the extent NYC DOHMH has not performed an environmental investigation of any unit in which a child with an elevated blood lead level has been reported within 15 days of identifying such unit, NYCHA shall perform an environmental investigation of that unit and common areas servicing that unit and perform abatement of any lead-based paint hazards within thirty days in accordance with 24 C.F.R. §§ 35.1130(c) and 35.1325.

i. Lead Disclosure

27. From and after the Effective Date, NYCHA shall provide residents signing new leases (or, where required by regulation, renewal leases) with information about the presence of lead-based paint and lead-based paint hazards in their apartments and developments in accordance with the Lead Disclosure Rule, 24 C.F.R. part 35, subpart A; 40 C.F.R. part 745, subpart F.

28. NYCHA shall ensure that physical copies of all materials required to be disclosed by the Lead Disclosure Rule are present, available for inspection, and permanently maintained at the management office for each development.

29. NYCHA shall ensure that electronic copies of all materials required to be disclosed by the Lead Disclosure Rule are available to residents through an internet-based portal.

ii. Certifications Regarding Lead Paint

30. NYCHA shall provide the United States and the Monitor certifications describing its compliance as follows:

    a. No later than 120 days after execution of this Agreement, NYCHA shall submit to the United States a statement describing its compliance with paragraphs 4-6. In its submission to the United States, NYCHA shall specify the method(s) used to correct any lead based paint hazards identified on the Immediate Action List and certify that such corrections were performed in compliance with the Lead Safe Housing Rule, Renovation, Repair and Painting Rule, and Abatement Rule, as applicable, and that residents were notified of the corrections in compliance with the Lead Safe Housing Rule.

    b. Six months after the Effective Date, and every six months thereafter, NYCHA shall provide the United States and the Monitor a certification describing its compliance with paragraphs 8 to 15.

31. To the extent that compliance is not yet due under a particular provision at the time that the certifications described in paragraph 30 are to be provided, the certification shall describe NYCHA's progress achieving compliance when due, and detail NYCHA's plan for achieving compliance promptly.

32. Upon the request of the United States or the Monitor, NYCHA shall promptly submit documents underlying a certification.

iii. Other Obligations

33. In addition to meeting the requirements of paragraphs 1 to 32, and except where otherwise provided in an approved Action Plan, NYCHA shall perform the following tasks:

a.	NYCHA will display a sample kit of the supplies needed to complete an RRP work order in all 139 storerooms by January 31, 2019.
b.	NYCHA will issue a minimum of one kit of RRP supplies to RRP-certified staff daily by February 28, 2019.

c.	NYCHA will enhance its work order system to automatically create a "dust wipe" work order if a RRP work order is generated by February 28, 2019.
d.	NYCHA will select a vendor to supplement the EPA's RRP training with practical training on dust control measures to simulate a range of working conditions by March 31, 2019 and train substantially all RRP-certified staff by December 31, 2019.
e.	NYCHA will provide all Resident Building Superintendents, Assistant Resident Building Superintendents, and Property Managers with training in RRP practices on an ongoing basis.
f.	NYCHA will train all maintenance workers to perform lead-based paint visual assessments by September 30, 2019.
g.	NYCHA will secure additional, dedicated painting contracts for the Healthy Homes Department to exclusively focus on remediation by December 31, 2019.

EXHIBIT B – REQUIREMENTS FOR HEAT, MOLD, ELEVATORS, PESTS, AND ANNUAL INSPECTIONS

A. Heat

i. Provision of Heat

1. As set forth in paragraphs 2 and 3 below, NYCHA will comply with N.Y.C. Admin. Code § 27-2029(a) (the "legal limits"), which as of the Effective Date require NYCHA to maintain the following temperatures in apartments between October 1 and May 31 (the "Heating Season"):

a. between the hours of 6:00 a.m. and 10:00 p.m., a temperature of at least 68 degrees Fahrenheit whenever the outside temperature falls below 55 degrees; and

b. between the hours of 10:00 p.m. and 6:00 a.m., a temperature of at least 62 degrees Fahrenheit.

2. By and after October 1, 2024, NYCHA will ensure that, during any given Heating Season:

a. no more than 15% of occupied apartments, as measured according to procedures established in an Action Plan which may include a reliable sampling method, shall have an occasion in which the temperatures fall below the legal limits, and

b. the temperature shall not fall below the legal limits on more than three separate occasions in a given unit.

ii. Identification of Heating Failures

3. Within 90 days of the Effective Date of this Agreement, for those developments which are already furnished with electronic temperature reading devices, NYCHA will institute and maintain a system that identifies all apartments in which such devices indicate a violation of the City Code heating requirements, and identifies the inside and outside temperatures associated with such violation.

4. This information will be available to all NYCHA personnel responsible for heating and to all development managers.

5. This information will be fully available to the Monitor, HUD, and SDNY.

6. An appropriate mechanism for disclosing this information to the public shall be provided in an Action Plan.

7. By December 31, 2020, NYCHA will have installed electronic temperature monitoring sufficient to provide NYCHA a comprehensive understanding of heating conditions in 44

developments, which shall include electronic temperature monitoring in no fewer than 30% of NYCHA apartments in such developments. A schedule shall be established in an Action Plan with deadlines by which NYCHA will install such monitoring systems in the remainder of NYCHA's developments.

iii. Response to Heating Failure

8. By October 1, 2019, NYCHA shall establish an Action Plan that identifies, for each development, how NYCHA will respond to heating outages, taking into account resident populations, historical data about prior outages, the availability of on-site and remote maintenance personnel, and response times. The plan shall include provisions for alternative heated community spaces for heating outages that are expected to last for a substantial duration. The plan shall also address NYCHA's policies for closing out work orders when the resident is not available at home or otherwise does not provide access to his or her apartment to resolve a heating outage. The plan shall be made available to the residents and posted online.

9. Starting with the Heating Season beginning October 1, 2019, NYCHA will:

   a. Consistent with its previously stated goal, restore heat to units affected by a heating shortage within an average of 12 hours.

   b. During the Heating Season, for 85% of heating shortfalls, NYCHA will restore heat to affected units within 24 hours, and in no event more than 48 hours. NYCHA may restore heat through the use of temporary replacement heating systems that comply with the N.Y.C. Admin. Code.

   c. In any event in which heat is unable to be restored to a particular unit within 12 hours, appropriate NYCHA personnel distinct from the NYCHA personnel responsible for the heat restoration, as identified in an Action Plan, shall undertake an investigation to determine the root cause(s) of such initial failure of the heating system and the failure to achieve the restoration of service within the timeframe, identify corrections to prevent or lessen the recurrence of such failures, and track the implementation of such corrective actions. Such information shall be retained in a central repository to which all applicable maintenance staff and management have access.

10. Starting with the Heating Season beginning October 1, 2024, NYCHA will:

   a. During the Heating Season, for 85% of heating shortfalls, NYCHA will restore heat to affected units within 12 hours, and in no event more than 24 hours. NYCHA may restore heat through the use of temporary replacement heating systems that comply with the N.Y.C. Admin. Code.

   b. In any event in which heat is unable to be restored to the affected units within 12 hours, the Quality Assurance Unit shall undertake an investigation to determine the root cause(s) of such initial failure of the heating system and the failure to achieve the restoration of service within the timeframe, identify corrections to prevent or lessen the recurrence of such failures, and track the implementation of such corrective actions. Such information shall be retained in a central repository to which all applicable maintenance staff and management have access.

11. A failure to timely restore heat will not constitute violation of paragraphs 9 and 10 if NYCHA documents that the resident has failed to provide access to the unit; provided, however, that this paragraph only applies to the extent that NYCHA has provided the resident with the opportunity to authorize access in his or her absence.

12. A failure to timely restore heat will not constitute a violation of paragraphs 9 and 10 if the failure is caused by forces outside of NYCHA's control other than the weather, if NYCHA establishes to the satisfaction of the Monitor that they were the cause of the failure and that such cause was outside NYCHA's control. Nothing in this paragraph affects the provision in paragraph 11.

13. Beginning on and after the Effective Date:

a. Within two hours of NYCHA learning of any unplanned heating outage, NYCHA shall notify all affected tenants by robocall. NYCHA shall also post notice of the outage within the common areas of the affected building and on NYCHA's website.

b. For any planned heating shortfall, NYCHA will provide affected tenants with at least 48 hours' advanced notice. Such notice will be provided via robocall, and shall be posted in the common areas of the affected building and on NYCHA's website.

c. NYCHA shall give the Monitor 48 hours' advanced notice of any planned heating shortfall, and shall notify the Monitor within 2 hours of receiving notice of any unplanned heating shortfall. The notice shall be provided in the manner prescribed by the Monitor.

iv. Other Obligations

14. In addition to meeting the requirements of paragraphs 1 to 13, and except where otherwise provided in an approved Action Plan, NYCHA shall perform the following tasks:

a.	By March 31, 2019, NYCHA will create a 24/7 Heat Desk which will monitor heating metrics and dispatch staff to correct deficiencies during the Heating Season.

b.	NYCHA will modernize the Building Management Systems[1] at 44 developments by December 31, 2019. Modernization will include introducing indoor temperature sensors.
c.	NYCHA will replace or address approximately 500 boilers by 2026, as follows: • 297 boilers will be replaced by December 31, 2026 based on the current capital plan (70 boiler within 3 years plus another 63 within five years). NYCHA will partner with the School Construction Authority (SCA) to reduce the overall timeframe for the planned capital work. The partnership with the SCA could accelerate NYCHA's planned capital work by a year. NYCHA could further increase the number of heating plants replaced or accelerate the pace of replacement with additional funding, regulatory relief, and statutory changes. In parallel with boiler replacement, NYCHA will evaluate the condition of a development's entire heating-related capital needs, such as replacement of underground distribution systems, and take appropriate action. • NYCHA will address approximately 200 additional boilers through PACT through December 31, 2026. The developer selected to partner with NYCHA will replace or repair the boiler and accessory heating systems as needed.

B. Mold[2]

i. Mold Incidence and Recurrence

15. Within five years of the Effective Date, NYCHA shall comply with the following:

a. For 85% of verified mold complaints, there shall not be a second verified mold complaint in the same unit or the same common area room or hallway within a 12-month period.

b. No more than 15% of verified mold complaints shall be for mold covering 10 or more square feet in a unit or common area that is visible from within such unit or common area, unless NYCHA can document to the satisfaction of the Monitor that after having been advised by NYCHA to report incidences of mold, the resident did not report the incidence of mold until after the mold had reached this extent.

c. Mold shall not appear more than three times in a year in any single unit.

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[1] Building Management Systems are computerized controls that provide automation, remote monitoring, and remote control for building mechanical systems, such as boiler plants, ventilation, and common area lighting.

[2] "Mold" shall be defined as all species of microscopic fungi that grow in the form of filaments composed of many cells, and shall be limited to mold that has grown enough to be visible to the unaided eye.

16. For purposes of NYCHA's obligations under paragraph 15, small amounts of incidental mold growth that would be expected to occur in any household with average moisture conditions that may be remediated by the resident as part of standard housekeeping shall be excluded, such as limited mildew on shower curtains or around the caulking of a bathtub, so long as the character of this mold is properly documented and photographed by NYCHA.

ii. Remediation of Mold and Moisture

17. Within two years of the Effective Date:

a. For 95% of instances in which a resident reports a mold complaint that is subsequently verified or NYCHA identifies mold in a unit, consistent with the NYCHA Standard Procedure SP 040:14:1, Mold/Mildew Control in NYCHA Residential Buildings, Revised December 19, 2018, within five business days of the resident reporting or NYCHA identifying mold in the unit, NYCHA shall prepare and provide a written plan for addressing the root cause to the resident. NYCHA may meet this standard by mailing a copy of the written plan to the resident via U.S. or electronic mail within the five day period.

b. For 95% of instances in which a resident reports a mold complaint that is subsequently verified or NYCHA identifies mold in a unit, consistent with the NYCHA Standard Procedure SP 040:14:1, Mold/Mildew Control in NYCHA Residential Buildings, Revised December 19, 2018, within five business days of the resident reporting or NYCHA identifying mold in the unit, NYCHA shall remove mold that is visible from within the unit. In the alternative, NYCHA may comply with this standard by remediating the mold and its underlying root cause (i) within 7 days, for repairs that can be performed by a Maintenance Worker or Caretaker, or (ii) within 15 days, for repairs that must be performed by skilled trade workers or other specialized staff in one or more visits.

c. For 95% of reports to NYCHA of floods, leaks from above, and other conditions that cause sustained or recurrent moisture to flow into a resident's unit or the walls of the unit, NYCHA shall abate the condition within 24 hours of a report of the condition to NYCHA, and NYCHA shall remove any standing water that resulted from such condition within 48 hours of the report.

18. A failure to meet the timeframes in subparagraphs (a) and (b) of paragraph 17 shall not constitute a violation of those standards if NYCHA documents that the resident has failed to provide access to the unit; provided, however, that this paragraph only applies to the extent that NYCHA has provided the resident with the opportunity to authorize access in his or her absence.

19. NYCHA will not close any mold, flood, or "leak from above" work orders as "Resident Not Home," including any such work orders that NYCHA has not yet verified.

iii. *Baez v. NYCHA*

20. NYCHA shall comply with the terms of orders in *Baez v. NYCHA*, No. 13 Civ. 8915, as they may be entered or revised by the Court.

C. Elevators

21. Within 120 days of the Effective Date, NYCHA shall establish an Action Plan that identifies, for each building that contains an elevator designed for resident use, how NYCHA will respond when all elevators are out of service at that building (a "no-service" condition). Such plan shall take into account the resident population of each building, any individuals with self-reported mobility impairments, historical data about prior outages or service disruptions, the availability of personnel to assist residents, the terms of any elevator support contract, and historical response and repair times. Such plans shall be made available to the residents and posted online.

22. Within 120 days of the Effective Date, NYCHA shall provide HUD and the Monitor with sufficient data to identify elevator service interruptions in the prior three years. This data shall be updated at least quarterly.

23. Within three years of the Effective Date, NYCHA shall comply with the following:

a. 70% of buildings containing more than one elevator will have no more than one instance per year where all elevators are out of service (whether planned or unplanned) at the same time, and no such building shall have more than three instances in a year.

b. 70% of elevators in all buildings shall have an unplanned outage no more than eight times per year, and no elevator shall have unplanned outages more than 15 times a year.

24. Within five years of the Effective Date, NYCHA shall comply with the following:

a. 85% of buildings containing more than one elevator will have no more than one instance per year where all elevators are out of service (whether planned or unplanned) at the same time, and no such building shall have more than three instances in a year.

b. 85% of elevators in all buildings shall have an unplanned outage no more than eight times per year, and no elevator shall have unplanned outages more than 12 times a year.

25. Notwithstanding anything else herein, NYCHA will take an elevator out of service where required for health and safety reasons.

26. An outage that NYCHA demonstrates to the satisfaction of the Monitor to be the result of an act of vandalism by a third party shall not be counted as an outage for purposes of paragraphs 23 and 24, provided that (i) the Monitor concludes that NYCHA used and continues to use best

efforts to prevent such vandalism in the affected building, and (ii) such outage is resolved within the response times set forth herein.

27. As of one year of the Effective Date, NYCHA shall have no planned outages that result in a no-service condition between the hours of 6 a.m. and 10 a.m. or between 3 p.m. and 8 p.m., except for planned elevator rehabilitation or replacement or outages mandated by another governmental agency or regulatory entity.

i. Response to Disruptions in Service

28. For the first year after the Effective Date, NYCHA shall reduce the duration of service outages by 10%, and 75% of no-service conditions shall be resolved within 18 hours of the time NYCHA learns of them. The response rate shall improve each year thereafter as determined by the Monitor and HUD based on the data NYCHA provides to the Monitor and HUD and the steps NYCHA has taken in executing its action plans.

29. Within five years of the Effective Date, NYCHA shall resolve all outages within the following timeframes:

a. For outages that result in a no-service condition:

(i) 85% shall be resolved within 4 hours of NYCHA learning of such condition, and

(ii) no no-service condition shall last more than 12 hours, unless the no-service condition is in a one-elevator building and results from either (A) an outage due to an elevator rehabilitation or replacement or (B) an outage for which the industry-accepted repair time is longer than 12 hours or that requires NYCHA to order unavailable parts.

b. For outages that do not result in a no-service condition:

(iii) 85% shall be resolved within 10 hours of NYCHA learning of such condition, and

(iv) no outage shall last more than 18 hours, unless the outage results from either (A) an outage due to an elevator rehabilitation or replacement or (B) an outage for which the industry-accepted repair time is longer than 18 hours or that requires NYCHA to order unavailable parts.

ii. Outage Identification and Notice

30. Within six months of the Effective Date, NYCHA will institute and maintain a system that identifies every elevator outage and the start and end times of such outages identified by remote monitoring systems, work-order records, or any additional sources of outage information,

and make that system accessible and available to all NYCHA personnel responsible for elevators and to other relevant personnel, including all development managers and the General Manager.

31. Within five years of the Effective Date, NYCHA will establish continuous remote monitoring in 70% of its elevators.

32. Within six months of the Effective Date, NYCHA will establish a system to provide residents of buildings affected by a planned outage 24-hours advanced notice, and to provide residents of buildings affected by an unplanned outage notice within two hours of NYCHA learning of the outage. Such notice shall include instructions regarding what assistance NYCHA has available for individuals with mobility impairments during the outage. Notice shall occur by robocall and via postings within the affected building and on NYCHA's website.

33. NYCHA will provide the Monitor 24 hours advanced notice of any planned outage, and shall notify the Monitor of any unplanned outage within two hours of NYCHA learning of the outage. Notice shall occur in the method prescribed by the Monitor.

iii. Other Obligations

34. In addition to meeting the requirements of paragraphs 15 to 33, and except where otherwise provided in an approved Action Plan, NYCHA shall perform the following tasks:

a.	NYCHA will adopt a new seven-day, extended schedule for caretakers to enable more frequent cleaning of elevator door tracks at the start of each shift.
b.	NYCHA will replace or address at least 425 elevators by 2024: • 275 elevators will be replaced by December 31, 2024 through its capital plan. (108 within three years plus another 167 within five years) • NYCHA will transfer 150 additional elevators to third-party management through the PACT program by December 31, 2024. The developer selected through PACT will replace elevators as needed in buildings under its purview.

D. Pests[3]

i. Pest Population Reduction

35. Within six months of the Effective Date, the Monitor in consultation with NYCHA shall establish reasonable protocols by which Integrated Pest Management ("IPM") professionals shall develop and provide reliable estimates, at least quarterly, of the pest populations in each

[3] "Pest" means rats, mice, cockroaches, and bedbugs.

NYCHA development. NYCHA shall promptly publish these figures, by development and pest type, on its website.

36. Within three years of the Effective Date, NYCHA shall achieve a 50% reduction of its rat population across its portfolio, a 40% reduction in its mice population across its portfolio, and a 40% reduction in its roach population across its portfolio. By that time, NYCHA shall also achieve a percentage reduction in its bedbug population across its portfolio, to be determined by the Monitor.

37. Within five years of the Effective Date, NYCHA shall achieve a further 50% reduction in each of its pest populations across its portfolio.

ii. Response to Resident Complaints

38. Within two years of the Effective Date, NYCHA shall:

a. respond to 75% of all rat complaints within two business days, and to all rat complaints within five days;

b. respond to 75% of all other pest complaints within seven days, and to all other pest complaints within ten days;

c. apply effective pest control methods (in compliance with applicable law including the Federal Insecticide, Fungicide, and Rodenticide Act, 7 U.S.C § 136 *et seq.*), to address any verified complaints within 7 days; and

d. provide expedited response and application of pest control methods in cases where NYCHA is aware that a resident of the unit has asthma or another condition generally recognized as being caused or exacerbated by exposure to pest infestations (for example, other respiratory illness, immune deficiency/suppression, and/or effects of certain medical treatments). In an Action Plan, NYCHA and the Monitor shall establish a procedure for informing residents of a process through which residents may notify NYCHA if anyone residing in a unit has such a health condition.

39. Within five years of the Effective Date, NYCHA shall:

a. respond to 90% of all rat complaints within two business days, and to all rat complaints within five days;

b. respond to 90% of all other pest complaints within seven days, and to all other pest complaints within ten days.

40. If NYCHA does not respond to a pest complaint by a resident as required by paragraphs 38 and 39 but (a) provides the resident with the opportunity to authorize access in the resident's absence and (b) documents to the satisfaction of the Monitor that the resident has failed to

provide access to the unit, NYCHA will be deemed to have responded to the complaint for purposes of paragraphs 38 and 39 at the time of the first documented attempt to access the unit.

iii. Targeted Relief for Infestations

41. Within six months of the Effective Date, NYCHA shall, for any unit that has more than one pest infestation complaint verified by NYCHA staff within twelve months (a) cause a professional using IPM techniques to evaluate the unit and its immediately adjacent units and common areas within 30 days to identify any circumstances specific to that unit that may have contributed to such recurrence (including, but not limited to, unaddressed leaks, proximately located trash, or holes in walls), and (b) address, consistent with IPM principles, any such circumstances within the following 30 days.

iv. Integrated Pest Management

42. For purposes of this Agreement, IPM means, as described by EPA on its IPM Principles website, as of the Effective Date, "an effective and environmentally sensitive approach to pest management that relies on a combination of common-sense practices. IPM programs use current, comprehensive information on the life cycles of pests and their interaction with the environment. This information, in combination with available pest control methods, is used to manage pest damage by the most economical means, and with the least possible hazard to people, property, and the environment. ... IPM takes advantage of all appropriate pest management options including, but not limited to, the judicious use of pesticides."

43. Within twelve months of the Effective Date, NYCHA shall incorporate industry standard IPM practices, including Northeastern IPM Center (NortheastIPM.org and StopPests.org), Integrated Pest Management – A Guide for Affordable Housing, using the current edition at the time of the pest complaint (the edition as of the Effective Date was February 2014), as developed under an interagency agreement between HUD and the U.S. Department of Agriculture) for their Delivery of IPM Training to PHAs project; and current editions of other professional IPM resources as the Monitor may approve, into building operations in all NYCHA properties.

44. Within twelve months of the Effective Date, NYCHA shall send staff appropriately trained on IPM to respond to any pest complaint.

v. Daily Inspections and Trash Collection

45. Within six months of the Effective Date, NYCHA shall, no less than once every 24 hours, inspect the grounds and common areas of each building for cleaning and maintenance needs, including pests and trash, and correct such conditions. In particular, NYCHA shall ensure that trash on the grounds or common areas of each NYCHA building is collected and either removed from the premises or stored in a manner that prevents access by pests at least once every 24 hours.

vi. Other Obligations

46. In addition to meeting the requirements of paragraphs 35 to 45, and except where otherwise provided in an approved Action Plan, NYCHA shall perform the following tasks:

a.	NYCHA will install 8,000 door sweeps on basement doors with gaps by March 31, 2020
b.	NYCHA will install 50 rat slabs by December 31, 2020.
c.	NYCHA will dedicate 20 full-time exterminator staff to conduct ongoing comprehensive preventative maintenance treatments in public spaces for developments within the RMZ.
d.	NYCHA will install exterior bulk crushers or retrofit exterior compactors with auger bulk crushers at 10 developments by December 31, 2022

E. Annual Inspections

47. NYCHA will conduct annual inspections of developments. To complete its annual inspections, NYCHA shall either: (a) inspect each occupied unit each year; or (b) inspect its units pursuant to such other program of annual inspection that is consistent with HUD Public Housing Management E-Newsletter, Vol. 3, Issue (January 2012).

48. By and after ninety (90) days after the Effective Date of this agreement, annual inspections shall include having the person conducting the inspection perform any minor repairs during the inspection.

49. By one hundred and twenty days (120) after the appointment of the Monitor, NYCHA will submit an Action Plan to the Monitor for complying with the requirement to conduct annual inspections and perform minor repairs during such inspections. The Action Plan shall include procedures for (i) on-site completion of minor repairs during inspections, and (ii) the scheduling of other inspection-identified maintenance deficiencies for subsequent repair.

Exhibit C

New York City Housing Authority

FY18-FY27 Expense & Capital (Mayoral Only)

On the City Fiscal Year

	Funding	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	TOTAL FY18-FY27
Expense Items	City Tax Levy	$ 127,424,609	$ 123,768,582	$ 124,365,233	$ 114,720,995	$ 114,761,919	$ 73,307,856	$ 73,307,856	$ 73,307,856	$ 73,307,856	$ 73,307,856	$ 971,580,618
Capital	Capital	$ 483,236,000	$ 423,575,000	$ 179,122,000	$ 86,000,000	$ 136,000,000	$ 136,000,000	$ 136,000,000	$ 136,000,000	$ 136,465,000	$ 137,944,000	$ 1,990,342,000
GRAND TOTAL		$ 610,660,609	$ 547,343,582	$ 303,487,233	$ 200,720,995	$ 250,761,919	$ 209,307,856	$ 209,307,856	$ 209,307,856	$ 209,772,856	$ 211,251,856	$ 2,961,922,618

*This table breaks out NYCHA's budget as of 5/10/18. Capital will be reforecast every fiscal year to account for what NYCHA has actually committed. The remaining funding is rolled to the following fiscal year or subsequent fiscal years.

Written Testimony for the Record

by

Howard Husock

Vice President for Research and Publications, Manhattan Institute

U.S. House of Representatives

Committee on Financial Services

"Housing in America: Assessing the Infrastructure Needs of America's Housing Stock"

April 30, 2019

Thank you Chair Waters and Ranking Member McHenry for this opportunity to submit written testimony in regard to the committee's hearing on the affordable housing inventory as a vital part of the nation's infrastructure. My focus will be on the crucial need to make the best use of our existing affordable housing inventory.

I write in specific regard to the capital needs of America's 1.1 million public housing. As members are well aware, for many years public housing authorities had received federal assistance covering only operating costs, while maintenance and capital needs went dangerously unaddressed. In New York City, where I conduct housing policy research, the New York City Housing Authority has, in fact, been branded a slumlord. Tens of thousands of its tenants have suffered from a lack of heat and water in the coldest winter months.

For the first time in decades, however, we are seeing a new approach to funding public housing capital needs come to fruition, and to be implemented by successive Administrations led by different political parties. It's my hope that the Committee will find avenues to express its enthusiasm for this approach and to urge its expansion.

The Rental Assistance Demonstration project, developed by Obama Administration HUD Secretary Shaun Donovan, has, without increasing federal spending, secured, to date, $7 billion in private investment to support the operating and long-term capital costs of 113,000 public housing units. It has done through a simple but ingenious expedient. The conversion of federal rental operating assistance to public housing authorities to a unit, or place-based Section 8/housing voucher, creates a revenue stream against which private investors can obtain financing. In turn, the federal Low-Income Housing Tax credit creates additional investment incentive for corporate investors.

The approach has not only been embraced and implemented on a bipartisan basis, it has been enthusiastically received by the public housing authorities. In addition to the 113,000 public housing units for which financing has already been secured, some 200 housing authorities—including such major authorities as New York, Los Angeles, Detroit, Kansas City, Memphis, Newark and Boston—have filed applications indicating they are in the process of arranging development financing under the terms of RAD for an addition 133,000 units. What's more, HUD has received letters of interest, the most preliminary stage of RAD participation, which could potentially lead to investment in regard to an additional 100,000 public housing units.

Although less well-known, RAD has also been used, by private owner investors, to secure financing for affordable housing complexes comprising an addition 30,000 units and may be used to finance improvements for 35,000 units in elderly housing apartment complexes.

Concerns about the role of private investors and managers in what have historically been publicly-owned and operated housing agencies are understandable. I would, however, draw the committee's attention to what I feel are less-understood advantages and reassurances of the RAD approach. Consider the New York City Housing Authority, with some 180,000 units. Were it to invest its own operating and capital funds in the new heat and hot water systems it so desperately needs, it would face unforeseen negative consequences. More efficient systems would, of course, lower its operating expenses—and that would, in turn, by formula, lead to its operating assistance being reduced in the next budget cycle. A RAD-based investor operator would face no such problem. Once operating assistance has been converted into a reliable rent revenue stream, management firms have every incentive to make investment that lower their costs—without incurring the risk of receiving less rental income. They would, indeed, have additional revenue to do what RAD requires: guaranteeing to fund a 20-year capital need account for the public housing development involved. This capital requirement is coupled with a contract that calls for the units to be permanently affordable. Thus, we see the potential for a significant makeover of a significant portion of the nation's public housing stock.

It is important to be mindful, however, of the limits of RAD as it is currently designed. Private financing, even when incentivized by the Low Income Housing Tax Credit, can only be secured when rental income from public funds is sufficient for investors to secure private construction mortgage financing. HUD officials believe that the current rent levels will be inadequate to enable the RAD approach to be employed for as many as 500,000 of the nation's 1.1 million public housing units.

Here one can see the makings of a bipartisan housing infrastructure approach: an increase in federal assistance to public housing authorities based on the understanding that funds would be used to increase rent revenues on which RAD financing is based. This sort of public-private partnership will, in my view, rightly have bipartisan appeal.

In contrast, this is not, in my view, the right time to try to encourage a new housing production program. The Joint Committee has estimated that cost to the Treasury of the Low Income Housing Tax Credit over a five-year time period at some $45 billion. Unless the value of tax credit authorization were to be increased, any new production program would risk limiting tax credit financing availability for RAD-based public housing repair and modernization.

A good case can be made, in my view, that such repair and modernization should be our highest priority—it's what we owe to tenants living in substandard conditions in government-owned housing. Moreover, although high housing costs characterize select U.S. markets, especially parts of California, it's important not to extrapolate from such markets that a housing crisis is affecting the country at large. Many cities are actually seeing high housing vacancy rates, rather than the bidding wars which characterize our hottest housing markets. According to Census data, in Cleveland, Ohio, the housing vacancy rate is 20 percent—of 43,000 units. In Chicago, there are 153,000 vacant units, 12.8 percent of all housing. In St. Louis, 36,000 or 20.7 percent of all housing, is vacant. It would, in my view, be ill-advised to subsidize additional affordable housing construction in such locations; doing so could lead to more vacancies in the private market that would face subsidized competition. Additional vacancies or abandonment are no good for healthy neighborhoods.

Public housing, of course, should not be the sole focus of housing policy concern. All housing construction will help make housing affordable across the board—more supply leads to lower prices. In the case of housing, however, new production often faces exclusionary zoning barriers, even in some city neighborhoods, as well, of course, in some more affluent suburbs. We have grappled with this problem for decades, confronting the face that federal policy does not override local control. The federal government, however, can use the carrot and stick of Community Development Block grant funds as a means to pushing municipalities to allow for higher-density zoning. Affordability is always tied to density. More units on the same acreage leads to lower prices. HUD, which disburses CDBG funds, should not, however, in my view, insist on zoning tied to income levels. Its goal should simply be higher-density housing. Two-to-four family housing is a classic naturally-occurring affordable housing type. In the pre-zoning era, it successfully accommodated millions of working class American households. It's heartening to see that some cities, notably Minneapolis are considering zoning changes which would introduce such housing into areas zoned exclusively for single-family homes. To the extent that federal policy can encourage such changes, it should—without threatening local governments.

I thank the Committee for considering these important issues.

The New York Times

.lold, Lead, Leaks and Broken Locks. Tenants Vent Fury at Housing Authority.

By Luis Ferré-Sadurní

Sept. 26, 2018

One mother cried as she spoke of the pain of not knowing who killed her teenage son last year because the cameras at her Brooklyn public housing complex were broken. Another resident discussed feeling unsafe and losing sleep because the front door of her building does not lock properly. A third described an intolerable stench in her home from pervasive mold that triggers her asthma.

"Do you know what it is like to not be able to breathe?" Nicole Moore, a resident of the Tompkins Houses in Brooklyn, asked a judge in a federal courtroom in Manhattan on Wednesday. "People don't know what I'm going through unless I express it."

.ose were some of the testimonies shared by dozens of public housing residents during an extraordinary hearing in United States District Court on whether an independent monitor should oversee the beleaguered New York City Housing Authority, also known as Nycha.

The hearing quickly became an emotional town-hall forum for residents, who vented their anger and frustration with the mismanagement of the housing authority and budget cuts that have left them with a litany of problems, including broken elevators, busted locks, leaky plumbing and unhealthy conditions created by mold and lead paint.

Judge William H. Pauley III must still decide whether to approve a federal monitor, a key part of a consent decree struck between the city, the housing authority and federal prosecutors in June. The settlement was the culmination of a yearslong federal investigation into Nycha, which has admitted to covering up its actions and lying to the federal government about lead paint inspections and other matters.

Judge Pauley held the unusual public hearing on Wednesday to give public housing residents an opportunity to share their opinions about the appointment of a monitor. It quickly became clear, however, that most residents were not there to weigh in on legal minutiae. They came in droves to ice years of grievances, denounce dilapidated living conditions and pounce on their landlord, tne country's largest public housing authority, which houses 400,000 New Yorkers.

"I come out of that building traumatized every single day," Ms. Boyd said. "It hurts."

Ms. Boyd said she has asked Nycha officials to transfer her to another development, to no avail. Her testimony prompted a scathing rebuke from the judge, who said housing officials should address her situation.

"Whether I have the authority or not, I'm going to order it," Judge Pauley said. "The fact that it came to light in this courtroom means it deserves immediate attention. Anyone who is a parent would understand that."

Judge Pauley did not issue a decision on the approval of the consent decree on Wednesday. Among other things, he must decide if the federal monitor's work will interfere with another court-mandated entity that will oversee efforts to rid public housing of mold, under a settlement reached after a 2013 lawsuit.

Nycha is waiting for an infusion of at least $2 billion in city funds as part of the consent decree, although even that might be a drop in the bucket next to the estimated $32 billion in unmet capital needs in the system's 325 housing developments.

"You guys are blessed," Eric Lewis, a resident, told the judge and lawyers. "You are not living in the projects."

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The New York Times

.ests Showed Children Were Exposed to Lead. The Official Response: Challenge the Tests

For at least two decades, the New York City Housing Authority routinely disputed tests that revealed lead in its apartments. Private landlords almost never do this.

By J. David Goodman, Al Baker and James Glanz

Nov. 18, 2018

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Mikaila Bonaparte has spent her entire life under the roof of the New York City Housing Authority, the oldest and largest public housing system in the country, where as a toddler she nibbled on paint chips that flaked to the floor. In the summer of 2016, when she was not quite 3 years old, a test by her doctor showed she had lead in her blood at levels rarely seen in modern New York.

. retest two days later revealed an even higher level, one more commonly found in factory or construction workers and, in some cases, enough to cause irreversible brain damage.

Within two weeks, a city health inspector visited the two Brooklyn public housing apartments where Mikaila spent her time — her mother's in the Tompkins Houses; her grandmother's in the Gowanus Houses — to look for the source of the lead exposure, records show. The inspector, wielding a hand-held device that can detect lead through multiple layers of paint, found the dangerous heavy metal in both homes. The Health Department ordered the Housing Authority to fix the problems.

The discovery spurred the Housing Authority to action: It challenged the results.

Rather than remove or cover the lead, the Housing Authority dispatched its own inspector who used a different test, documents show. The agency insisted that however Mikaila was poisoned, there was no lead in her apartments.

Entrusted as the landlord to 400,000 people, the Housing Authority has struggled for years to fulfill its mission amid a strangled budget and almost endemic political neglect. Last week, a ..dge suggested strongly that the federal government should take over the agency after an investigation found evidence of deep mismanagement, including that the Housing Authority failed to perform lead inspections and then falsely claimed it had. Six top executives lost their jobs amid the federal investigation; a complaint was filed in June.

"I'm not sure how useful it is to spend all the time and resources going back and forth with testing when maybe we could spend the time and resources making sure the exposure is controlled," said David Jacobs, who ran the lead poisoning prevention program at the United States Department of Housing and Urban Development from 1995 to 2004.

It is emblematic of disarray in the Housing Authority's lead policy that stretches back decades, an examination by The Times found.

The Times interviewed more than 100 current and former top city and federal housing officials, maintenance workers, building managers, lead contractors, health experts and public housing residents and reviewed thousands of pages of documents and court records. Taken together, they reveal an agency that assumed lead was no longer a threat, despite not really knowing where it was.

After suing lead paint companies in 1989, the city spent years arguing in court that its public housing buildings were riddled with lead. But as the case wound down, the Housing Authority adopted the opposite position, routinely contesting findings of lead. By 2004, the authority decided that only 92 of its 325 developments contained lead and clung to that position.

It was apparently wrong.

Word came in late 2015 to City Hall that the Housing Authority was the subject of a sprawling federal investigation that included lead paint. When the inquiry became public the following March, the de Blasio administration played down the problem, even as it began to learn of inspection failures, several former officials said. Administration officials were dismissive of stories about lead exposure that had appeared in The Daily News.

Not long afterward, public housing residents received letters from the authority requesting access for inspections. The authority did not want to create "a panic" among residents, two people with direct knowledge of the conversations said, so the letters said nothing about yearslong lapses in mandatory lead paint checks.

Some members of the authority's own board were also not informed. "Maybe they just didn't want us to know," said Beatrice Byrd, a resident of the Red Hook Houses in Brooklyn and a board member at the time.

Olivia Lapeyrolerie, a spokeswoman for Mr. de Blasio, said in response to questions from The Times that City Hall could not find evidence that inspections even before 2012 were in compliance with local and federal laws.

"At this point, we have no confidence in Nycha's annual inspections that took place before our administration began," Ms. Lapeyrolerie said in a statement.

The inspection failures began coming to light inside the authority in 2015, according to a report by the city Department of Investigation. By the time the de Blasio administration began quietly starting to check for lead paint hazards in 2016 and 2017, it had been years since anyone had done so.

The neglect showed.

In a two-month stretch at the end of 2017, contractors hired by the city visited 8,300 apartments and found potential lead paint hazards — peeling or flaking paint, or dust — in 80 percent of them, according to records produced as part of a lawsuit in state court.

The suit, filed by a tenant group, is one of several the authority currently faces over lead, including a state court suit by Mikaila's mother, Shari Broomes, and a separate action in federal court by the families of dozens of children who have tested positive for lead in recent years.

"You all have Band-Aids that you put on everything in the projects, but you all could not put a and-Aid on something that was harmful to my daughter?" Ms. Broomes said. "It didn't come from me, it came from my place of dwelling, and I can't help the fact that we live here."

This spring, the judge in the tenants' case ordered new inspections, saying there was a "credibility issue" with testing overseen by the Housing Authority.

A new round of visual checks this year found hazards such as peeling paint in 92 percent of the apartments that were checked.

lives, were assumed not to have lead.

But Nycha could have known something was most likely wrong with the list by watching its ›ungest tenants.

New York State law requires children to be screened for lead exposure even before they can walk, and annually up to age 6 if they are at particular risk. If the amount of lead in a child's blood hits a certain threshold, it sets off a mechanism: The doctor contacts the city Health Department, which sends an inspector to test the child's home for lead paint.

In 2015, 171 children in New York City public housing tested positive for elevated lead, down from 517 in 2010.

The Housing Authority was ordered by the Health Department inspector to remove lead in a child's apartment an average of two dozen times a year from 2010 through 2017, records show.

But city and court records show the authority rebutted the Health Department's findings as a matter of routine.

The authority believed its approach was valid because the Health Department so often rescinded its orders, Stanley Brezenoff, the interim Nycha chairman, said recently in an interview.

The Housing Authority cannot say precisely when it began challenging the city's own findings of lead. Staffers recalled that the practice dates at least to the late 1990s, Jasmine Blake, an authority spokeswoman, wrote in an emailed statement.

It continued until September when, after inquiries from The Times, the de Blasio administration reversed course.

"We are now in a posture of not contesting," Mr. Brezenoff said. "Whatever the merits of a particular case, or whatever is involved, we're accepting whatever the finding of the Health Department is."

It was a lesson private landlords learned years ago. "There's a concern and a fear on the part of the owners about liability. They just do it," said Frank Ricci, director of government affairs for the Rent Stabilization Association, which represents residential building owners. "The landlord calls a certified contractor to come and correct the condition wherever D.O.H. has designated they've found lead."

Warring between government agencies has bewildered families.

Deborah Morrison, 51, a substitute teacher and resident of the Gowanus Houses, recalled when her son, Saheed, tested positive for lead in 2010. Now a soft-spoken 11-year-old, Saheed excels in designing cartoon characters on his phone but needs special help in school.

This year, Mr. de Blasio promised to spend $80 million for testing next year to figure out, once and for all, where the lead paint is. The city will be inspecting apartments built before 1978, approximately 140,000 units out of 176,000 that the Housing Authority maintains, and the inspectors will be relying mainly on X.R.F. analyzers for the hunt.

Shari Broomes holds her daughter Mikaila at the Tompkins Houses. Kholood Eid for The New York Times

The New York Times

Jo Heat for 10 Years, and the City Is Their Landlord

The living conditions of the 100 or so residents of the Eagle Avenue apartments are emblematic of sweeping neglect by Nycha.

By Luis Ferré-Sadurní

Dec. 19, 2018

Evelyn and Franklin Badia's wish of qualifying for a public housing apartment became a reality in 2011 after eight years of waiting.

They were ecstatic to be chosen from a list of hundreds of thousands of other applicants, which allowed them to move with their three children into a new three-bedroom home in the South Bronx during the warm summer months. The apartment was affordable, spacious and even had a urtyard with a playground.

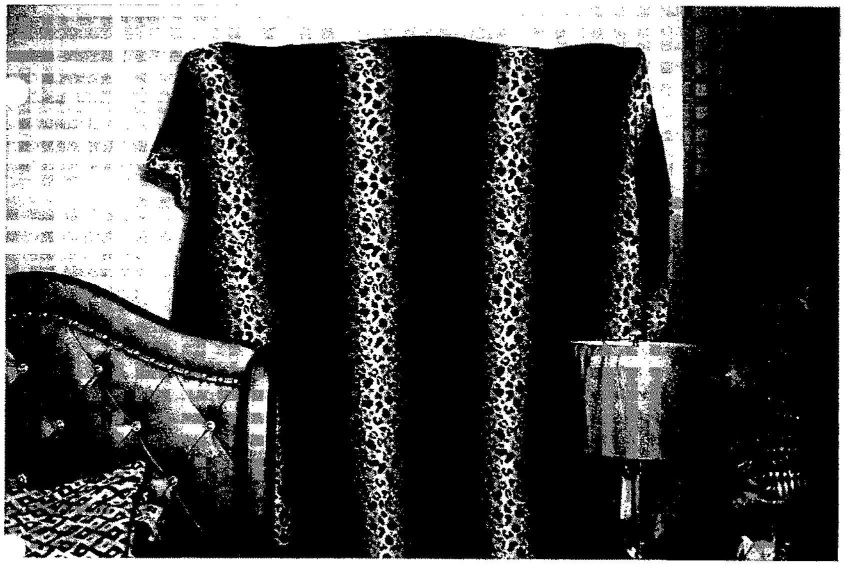
Then it got cold outside. Inside, too.

The heat in their apartment — owned by the New York City Housing Authority, also known as Nycha — didn't work that winter, or any winter after, they said.

When temperatures drop, the family brings out small electric space heaters, which they purchased, and duct tapes the edges of their windows to no avail. On the chilliest nights, the parents snuggle in one bed with their 6 and 11-year-old daughters, whose asthma worsens as a result of the cold temperatures.

Living conditions for the 100-or-so residents of the Eagle Avenue apartments are emblematic of sweeping neglect by Nycha, the landlord for the nearly 400,000 people in public housing which has been accused of malfeasance, mismanagement and of mishandling the removal of lead paint and mold from its apartments. Federal prosecutors are aiming to impose stricter oversight on the agency, with a takeover as one possibility.

The conditions on Eagle Avenue — one of four buildings in a complex called South Bronx Area e 402 — are consistent with other complaints residents have leveled at the agency; Nycha has been under fire for widespread heat and hot water outages at several housing projects.



Noelia Bran Montano stuffed a bedroom window with blankets to block the cold that seeps in every winter.
Kholood Eid for The New York Times

More space heaters, more frustration

Residents from more than two dozen households in the 36-unit walk-up on Eagle Avenue between 158th and 161st Streets told the The New York Times that repeated complaints about inadequate heat have gone unheeded by Nycha, their landlord.

Most tenants who had moved into the building within the past 10 years said that nonfunctional heaters had been the norm since they moved into the three-story, red brick building, which was built in the late 1980s. Longtime residents estimated that the heat began to falter about a decade ago.

A reporter visited 27 apartments, many of them on multiple occasions, over a five-day span this month, as outside temperatures hovered in the 30s. In most homes, the living room and bedroom heaters sat cold. Some dispensed faint, lukewarm air that residents said did not keep their /ellings warm, especially at night.

degrees inside at night.

The city's Department of Housing Preservation and Development enforces these laws in ·ivately-owned buildings. Private landlords are subject to fines as much as $1,000 per day for repeated heat violations.

But the city does not enforce the laws at buildings owned by Nycha. Housing advocates have long argued that Nycha effectively polices itself.

This year, for the first time, Nycha topped the public advocate's list of the worst landlords in New York City.

Mr. Mustaciuolo said there have been fewer outages across Nycha buildings during this heating season and that, on average, issues have been addressed within 10 hours. Boilers located in the musty cellar of 834 Eagle Avenue, which provide heat to residents, were flagged for numerous violations and defects before being replaced with new ones in 2016 — at a cost of $250,000.

The four new boilers haven't showed signs of defects, according to city records. Residents said they do have hot water.

But low-rise buildings, like the one on Eagle Avenue, present unique challenges for Nycha compared to the agency's iconic red brick high-rises, Mr. Mustaciuolo said. For example, the pipes that distribute heat in the smaller buildings run through a hollow area below the first floor .at can be hard to keep insulated, which can cause pipes to lose heat.

Nycha sent heat technicians to the building after The Times first inquired about the conditions at Eagle Avenue about two weeks ago.

"Any disruption of service that residents experience in the past should not be discounted, but right now my primary focus is to fix what the problems are now," said Mr. Mustaciuolo, who was appointed to the job earlier this year.

"They're not going to come and fix no pipes," Ms. Agee said last week. "I used to turn on my oven for heat and that was sickening. I want to get out of here not because of the neighborhood or the rent. Imagine, to move just because of heat?"

Grace Maldonado, the building's resident association president, blamed the problems on those tasked with the day-to-day upkeep at the housing project. In November, she organized a meeting where residents could air grievances to the development's manager.

"They're aware of these problems," said Ms. Maldonado, 62, who worked for decades as a supervisor for Nycha. "How do you leave these people for years without heat? How can you be so irresponsible and uncaring and get away with it?"

Robin Levine, a spokeswoman for Nycha, wrote in an email last week that on one occasion a resident in Ms Badia's apartment did not allow workers to enter the apartment, a claim Ms. Badia disputed. Ms. Levine did not elaborate on the circumstances behind the other closed work orders.

Ms. Levine said, in general, heat in the apartments was escaping through windows and doors in need of additional insulation. She said the heaters were working and recommended that residents move furniture away from the heater to increase heat circulation.

But during a recent visit by a reporter, only a small trickle of tepid air emanated from the heaters in several apartments. Ms. Badia said her daughters were sleeping with an electric space heater at night because of the cold.

"How am I going to tell my children to not turn them on?" Ms. Badia said. "If I have to spend all of my income in electricity, I'll do it. I'm not going to let my children suffer."

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St. Louis City & County