



SERC-NAHRO

Southeastern Regional Council of the National Association of Housing & Redevelopment Officials

AN OPEN LETTER TO CONGRESS - MARCH 2018

The Southeastern Regional Council of the National Association of Housing and Redevelopment Officials (SERC-NAHRO) is an association of knowledgeable and dedicated housing and community development professionals. Organized over 77 years ago, SERC-NAHRO consists of more than 700 agency members that serve over a half million low income households in ten southeastern states (Alabama, Georgia, Florida, North Carolina, South Carolina, Mississippi, West Virginia, Virginia, Kentucky and Tennessee). Through this Open Letter, SERC-NAHRO seeks renewed support and a commitment by Congress to sufficiently fund HUD programs and/or amend rules and regulations in need of reform. SERC-NAHRO members are unified in their efforts to house America's poor and we urge Congress to see that these efforts are successful.

Throughout the United States, affordable housing agencies have been highly effective in providing critical housing resources through their federally funded Public Housing and Rental Voucher Programs, yet many unmet needs remain. Market demands over the past several years have shifted, causing a decrease in homeowners and an increase in renters, which has resulted in an overall reduction in rental unit availability. HUD's own recent Report on Worst Case Housing Needs reflects that households meeting worst case criteria have increased by 41% since 2007 with only one in four low-income families with children having access to rental assistance. At the same time that demand continues to grow for affordable rental housing, the nation's stock of public housing units is dwindling. Based on HUD's Real Estate Assessment Center (REAC) scoring system, 84,000 public housing units are in need of immediate investment to avoid habitability issues. Past failure to re-invest in the aging public housing stock has already resulted in the loss of nearly 100,000 units since 2005. Underfunding of multiple HUD programs over the past decade has resulted in housing authorities being unable to meet the housing requirements of their communities' families. Unfortunately, this trend may with the President proposing more devastating cuts in his FY 2019 Budget.

It has become clear that federal funding levels necessary to preserve and operate public housing into the foreseeable future will be difficult, if not impossible, to realize or maintain. Programs that were in the not so distant past considered untouchable, such as Community Development Block Grant (CDBG) and Home Investment Partnership Program (HOME), are now on the cutting block. Up until now, Congressional effort to provide any significant regulatory relief has met with only modest success. If Congress intends to continue down the path of disinvestment in Public Housing, then bold and swift regulatory reform is imperative. Housing Authorities must have more flexibility to sustain operations and preserve housing stock.

SERC-NAHRO has established several priorities that are critical to effective future operation of the Public Housing Programs. These priorities are as follows –

- Reforms focused on providing flexibility and reducing or eliminating burdensome regulation.
- Suitable funding of all Public Housing Programs that will allow Housing Authorities to satisfy the mission as established by the Department of Housing & Urban Development.
- Support and expansion of Housing Development/Re-development programs to address the growing need for affordable housing.

It is the position of SERC-NAHRO that failure to address these key issues will result in a detrimental decline in our public housing resident's quality of life and their opportunity to reach self-sufficiency.

SERC-NAHRO members understand Congress' financial concerns and we support efforts to responsibly reduce federal spending. However, we believe that safe, decent and affordable housing is essential to the well-being of all our citizens and that reductions in spending levels should not be directed at vital domestic programs. We urge Congress to do all it can to ensure that housing, one of the most basic and fundamental needs, is available to our nation's most vulnerable families, including our elderly citizens, disabled citizens and our veterans.

Each of the housing programs has unique characteristics and challenges. For this reason, SERC-NAHRO has provided supplemental documents regarding the Public Housing Program, Resident Self-Sufficiency Programs, Rental Assistance Demonstration (RAD), Housing Choice Voucher Program (Section 8), and Housing Production Programs. Supplemental documents can be provided upon request.

PUBLIC HOUSING (supplemental)

GENERAL

Public Housing has been one of the cornerstones of the federal government's assisted housing effort for over 80 years or since the inception of the Housing Act of 1937. Public Housing, as originally conceived by the Franklin D. Roosevelt Administration, was to serve working families having difficulty finding affordable housing in the private market. It was intended that poor families would be assisted in moving up and out into private market housing. The original financial model for Public Housing utilized tenant rents to support day-to-day operations. With the implementation of the Brooke Amendment in 1969, income based rents were established. The change in focus from working tenants who pay the costs of operating their housing units to low-income residents created the need for continuing federal subsidies. In addition, the implementation of income based rents created a disincentive for residents to strive for self-sufficiency and has made the programs vulnerable to fraud. With the passing of the Brooke Amendment, Congress committed to fund the difference between what low-income tenants could pay for rent and the actual costs of operation – in return for agencies serving the lowest income residents. Unfortunately, Congress has not lived up to its funding responsibilities established decades ago. **Public Housing Authorities would prefer that the appropriate resources be provided to satisfy our housing mission, however, if adequate funding can't be appropriated then regulatory burdens must be relieved.**

OPERATING FUND

Housing Authorities are struggling to manage their Public Housing programs with heavily prorated funding. The 2018 Budget funds the Program at \$4.55 billion, an amount that provides housing authorities with an estimated 94 percent proration of eligibility. The recently released 2019 Presidential Budget reflects a 44% decrease in the Operating Fund effectively gutting the Program. Housing authorities are currently working with less staff, foregoing needed maintenance projects, and trying to make the reduced funding they receive cover ever-increasing expenses. Most housing authorities are finding it difficult, if not impossible, to continue successful operations under these declining conditions. Industry estimates reflect a need of \$5.074 billion to fully fund the Public Housing Operating Fund. SERC-NAHRO urges Congress to consider the adverse impact of decreased funding and find additional dollars to fully fund this critical housing program.

CAPITAL FUND

A huge need still remains for sufficient Capital Funds to preserve Housing Authorities' Public Housing stock. Year after year, Congress has underfunded the Capital Fund Program creating a massive backlog of capital needs. The repeated failure to adequately fund this program has resulted in the loss of viable units, deferment of needed repairs, and has been an impediment to proper facility management. The 2018 Budget funds the program at \$2.75 billion for the calendar year, far less than the estimated \$5.0 billion in need for 2018 and well below the \$3.5 billion in annually accruing capital needs. The need for capital improvements has increased with the aging of the housing stock, while appropriations have dwindled. This has resulted in a backlog of capital needs, once estimated at \$26 billion, now growing to \$33 billion. The recently released 2019 Presidential Budget proposes to abolish the Public Housing Capital Fund eliminating Housing Authorities most effective means of preservation. SERC-NAHRO urges Congress to provide \$5.0 billion in Capital Funding for 2019; otherwise, the physical needs of our public housing properties will continue to grow, threatening its viability.

INFRASTRUCTURE

Based on recent statements from the President, it appears that significant future funding is being planned for infrastructure improvements. Without a doubt, the Public Housing inventory is a significant and valuable part of the country's infrastructure. Verbal commitments have been made by HUD Secretary, Ben Carson, to include Public Housing in any infrastructure funding. We would ask that the Secretary stand by his commitment.

PUBLIC HOUSING PROGRAM REFORMS

A recent Presidential Executive Order directs each government agency to establish a regulatory reform task force. An earlier Executive Order instructs government agencies to eliminate two old regulations for every new regulation issued. **If funding continues to be reduced, regulatory reform will become critical.** SERC-NAHRO encourages Congress to take the following actions to address this:

- Passage of the Small Public Housing Agency reforms. Legislation has been introduced on several occasions but has yet to be brought to a vote. This legislation is designed to provide regulatory relief to 80 percent of the 3,200 Public Housing authorities that administer only a small fraction of the financial resources provided through the Public Housing and Voucher programs. This legislation is a result of HUD's own study, conducted by the IBM Study Group, which revealed that small housing authorities - defined as less than 550 units - only account for 20% of the total inventory of Public Housing & Vouchers

and account for 10% of the total federal funding for these programs. Significant reforms include revised assessment systems, limits on administrative requirements, alternative rent structures, fungibility of housing assistance, and other time/cost-saving measures. SERC-NAHRO requests that, if Small Public Housing Agency reform can't be passed on its own, then its recommendations be incorporated into any larger reform bill Congress might consider.

- Suspend HUD efforts to re-federalize Central Office Cost Centers (COCC) funds.
- Institute a moratorium on new rules, regulations and reporting requirements until such time that adequate funding can be provided to support heavier work-loads.
- Suspend HUD's non-statutory PHAS scoring. Housing Authorities cannot be expected to perform efficiently and effectively with chronic underfunding. PHAS scoring should be advisory until adequate funding can be restored.
- Suspension of burdensome and time consuming requirements such as Affirmatively Furthering Fair Housing studies, Section 3 Reporting, Environmental Review, PHA Annual/Five Year Plan, and Executive Compensation reporting until such time as Congress provides adequate funding.
- Allow blanket regulatory suspensions and waivers under 24 CFR Part 5.
- The President's 2019 Budget specifically addresses rent reform. SERC-NAHRO supports rent reform where flexibility is given to the local public housing agency to determine what changes are best needed to support operations and serve low income residents. These **flexibilities** include –
 1. Allow agencies to charge a fair and reasonable minimum rent. A minimum rent of \$50 was established by the Quality Housing & Work Responsibility Act of 1998 (QHWRA). It has been nearly 18 years since the passage of QHWRA and the minimum rent amount has not been adjusted for inflation or market conditions.
 2. Allow elimination of utility reimbursements.
 3. Allow removal/reduction of exemptions and deductions.
 4. Allow application of user fees where feasible.
 5. Current rent structure penalizes work for many residents and is exacerbated by federal taxes. Allow revised rent setting structures that incentivize work.
- Allow local flexibility in the establishment of policies to address over-income households.
- The flexibilities of the Moving to Work Program allow agencies to make local decisions that better serve their communities and address plans for future needs. Reauthorization and broad-based expansion of MTW demonstration in a manner that protects existing MTW agreements while providing a significant number of new MTW agencies with financial flexibility and the freedom to pursue innovative policies and practices. The 2016 Omnibus Bill expanded MTW to an additional 100 agencies in 2016. A primary objective of any MTW expansion should be to retain any/all flexibility found in the original statute. SERC-NAHRO members support further expansion of the Program to additional agencies.

RESIDENT SELF-SUFFICIENCY PROGRAMS (supplemental)

Recently, the President has made public statements regarding the need for assisted persons to become more self-sufficient. Prior to this, Speaker of the House Paul Ryan released his “*A Better Way*” Plan, which also discusses the need for self-sufficiency. The President’s 2019 Budget follows through with his statements and recommends numerous rent reforms with a focus on self-sufficiency. However, in the same Budget, the President eliminates two primary tools that Housing Authorities have at their disposal to move residents towards self-sufficiency.

RESIDENT OPPORTUNITIES AND SELF SUFFICIENCY (ROSS) PROGRAM

The ROSS program promotes and develops local strategies and coordinates the use of assistance under the Public Housing program with public and private resources, for supportive services and resident empowerment activities. These services enable participating families to increase earned income, reduce or eliminate the need for welfare assistance, make progress toward achieving economic independence and housing self-sufficiency, or, in the case of elderly or disabled residents, help improve living conditions and enable residents to age-in-place. The President’s 2019 Budget proposed to eliminate the ROSS Program. SERC-NAHRO urges congress to preserve the ROSS Program with funding of \$35 million.

FAMILY SELF SUFFICIENCY (FSS) PROGRAM

FSS Program links residents with training opportunities, job placement organizations, and local employers. Eligible residents enter into a contract of participation which outlines their responsibilities towards completion of training and employment objectives over a five year period or less. The contract of participation also stipulates PHA responsibilities towards helping residents achieve their goals. The Program goal is for the participating family to become independent from welfare assistance and remain independent for at least one year prior to the expiration of the contract. During the period of participation, residents may earn an escrow credit, based on increased earned income, which they may use in a variety of ways upon successful graduation from the program. SERC-NAHRO urges congress to preserve the FSS Program with funding of \$95 million.

RENTAL ASSISTANCE DEMONSTRATION (supplemental)

A recent study released by the Turner Center for Housing Innovation at U.C. Berkley indicates that Housing Authorities that have undertaken conversion of Public Housing under the Rental Assistance Demonstration (RAD) have largely succeeded in preserving their assets. However, RAD has both proponents and opponents in the housing industry, largely because of the funding uncertainties that still exist. While RAD is one way to ensure the preservation of Public Housing properties, it is not and should not be seen as a substitute for responsible funding for operating and capital funds under the traditional Public Housing program. SERC-NAHRO encourages Congress to direct HUD to work closely with the National Association of Housing and Redevelopment Officials and the Public Housing Authorities Directors Association to address flaws and ensure the success of RAD so that additional housing authorities will have the option to convert Public Housing units to the Section 8 platform. In that regard, we believe RAD should change from a demonstration to a permanent program. Working together, HUD, NAHRO and PHADA can achieve results that do not undermine the fiscal stability of the Public Housing program for agencies that opt against conversion.

Additional suggestions for the Rental Assistance Demonstration include –

- Ensure that RAD's promise of flexibility and regulatory streamlining is not eroded as the Program matures.
- Open up the program to any/all PHA's seeking conversion (eliminate unit limit)
- Support legislation (for example S.548 or H.R. 1661) that will expand and strengthen the Low Income Housing Tax Credit Program.
- Provide a Low Income Housing Tax Credit set aside for RAD conversions.
- Specifically include RAD in any affordable housing financing reform.
- Ease Congressional requirements that RAD conversions be income neutral.

HOUSING CHOICE VOUCHER PROGRAM (supplemental)

GENERAL

The Section 8 Housing Choice Voucher (HCV) Program was authorized by Congress in 1974 and has become the dominant form of federal housing assistance since its inception. More than 5 million people in 2.2 million low-income families across the nation use vouchers. Low-income families use vouchers to help pay for housing that they find in the private market. Since its beginning, the HCV Program has **generally** received continuous universal support from Congress and HUD. Unfortunately, following the 2010 federal funding cycle, assistance has been significantly reduced. Once again, **Public Housing Authorities would request that the appropriate resources be provided to satisfy our housing mission, however, if adequate funding can't be appropriated then regulatory burdens must be relieved.**

HOUSING CHOICE VOUCHER FUNDING LEVEL

The 2018 Budget funds the Voucher Program at \$19.6 billion for renewals, which current estimates indicate will fund the Program at nearly 100% for the year. However, several years of underfunding has caused Housing Authorities to drain their Net Restricted Assets/HAP Reserves to operate the program. As a result, many Housing Authorities have little or no reserves to absorb any increases in Housing Assistance Payment costs throughout the year. The loss of these assets/reserves may result in the loss of or underutilization of vouchers throughout the coming year. This trend will continue into the foreseeable future unless other measures, such as a more favorable renewal funding method or restoration of HAP money lost through the sequestration, are taken by Congress. Recent media releases reflect that as much as \$841 million may be cut from the Housing Choice Voucher Program in the calendar year 2019 Presidential Budget, adding to the depletion of the Voucher program that has resulted from prior proration. SERC-NAHRO urges Congress to consider the adverse impact of proration and fully fund this critical housing program.

HCV PROGRAM ADMINISTRATIVE FEES

It has been clearly established that current Housing Choice Voucher Administrative Fee levels are vastly below the amounts required to properly administer the program. It appears that no consideration was given to this fact as the administrative fees for 2018 have been funded at is at \$1.76 billion, an estimated underfunding of over \$629 million or a proration of 74%. Inadequate administrative fees have contributed to the loss of over 100,000 vouchers in recent years. Not since CY 2010 have housing authorities received above 90 percent of their earned administrative fees. The low point was in CY 2013 when the proration was 69%. Compounding the problem, housing authorities only earn an administrative fee for each household leased on the first day of each month, so the downward spiral in the number of families served also adversely affects already low administrative fee earnings. Since FY 2003, the last year housing authorities received 100 percent of their administrative fee eligibility; more than 200 housing authorities have handed back their voucher programs to HUD or transferred them to other housing authorities because they could no longer afford to administer the program. Many housing authorities that have temporarily weathered the cuts have suffered staff layoffs, furloughs and hiring freezes that have increased caseloads, in turn affecting their ability to administer the complex, regulation-heavy Voucher program. The 2019 Presidential Budget requests \$1.53 billion, which would further decrease funding. SERC-NAHRO requests that Congress provide the additional funding necessary to fully fund administrative fees at \$2.389 billion, which represents the true cost of administration. It is important to note that the HCV Program Administrative Fees are actually an operating subsidy for PHA's. These fees are what the housing authority uses to run the program. It is ineffective to raise the voucher funding level to 90+% while failing to adequately fund the HCV Program Administrative Fees for the operation of the program.

HOUSING CHOICE VOUCHER PROGRAM REFORMS

There are several actions Congress and HUD can take to cut future program and administrative costs. In requesting reforms, SERC-NAHRO recognizes the need for balance between program changes, Housing Authorities' responsibility to assist and support residents, and responsible government oversight. SERC-NAHRO encourages Congress to take the following actions to introduce reforms:

- Passage of the Small Public Housing Agency reforms. Legislation has been introduced on several occasions but has yet to be brought to a vote. This legislation is designed to provide regulatory relief to 80 percent of the 3,200 Public Housing authorities that administer only a small fraction of the financial resources provided through the Public Housing and Voucher programs. This legislation is a result of HUD's own study, conducted by the IBM Study Group, which revealed that small housing authorities - defined as less than 550 units - only account for 20% of the total inventory of Public Housing & Vouchers and account for 10% of the total federal funding for these programs. Significant reforms include revised assessment systems, limits on administrative requirements, alternative rent structures, fungibility of housing assistance, and other time/cost-saving measures. SERC-NAHRO requests that, if Small Public Housing

Agency reform can't be passed on its own, then its recommendations be incorporated into any larger reform bill Congress might consider.

- Revise Portability. The portability option that is available to Voucher holders can be challenging, in particular, for small Housing Authorities. Portability can financially impair Housing Authorities that have low fair market rents/payment standards. Essentially, when a Voucher holder "ports" to a higher cost area and that voucher is not absorbed by the receiving authority, the porting Housing Authority's housing assistance payment to the receiving Housing Authority may be more than double for that family than what it was in the original Housing Authority's jurisdiction. The resulting increase in costs reduces the number of local families a Housing Authority is able to assist. In addition, the originating Housing Authority only receives 20 percent of administrative fees for port-billing vouchers, which further exacerbates the problem. SERC-NAHRO proposes that Congress amend the law by requiring receiving Housing Authorities to immediately absorb incoming vouchers if their unit or budget authority utilization is less than 95 per cent. In any case, receiving housing authorities should be required to absorb ported families within 90 days of the initial lease. Further, it should be at each Housing Authority's option whether it will port a family to an area where the Fair Market Rent (FMR) exceeds the initial Housing Authority's FMR by more than 10%.
- Suspend HUD efforts to re-federalize Central Office Cost Centers (COCC) funds.
- Moratorium on the implementation of Uniform Physical Conditions Standards for the Voucher Program (UPCS-V). Preliminary indications are that this inspection protocol is costly and time consuming when compared to Housing Quality Standards (HQS). There are also concerns that UPCS-V will hamper voucher implementation.
- Institute a moratorium on new rules, regulations and reporting requirements until such time that adequate funding can be provided to support heavier work-loads.
- Suspend HUD's non-statutory SEMAP scoring. Housing Authorities cannot be expected to perform efficiently and effectively with chronic underfunding. SEMAP scoring should be advisory until adequate funding can be restored.
- Suspension of burdensome and time consuming requirements such as Affirmatively Furthering Fair Housing studies, Section 3 Reporting, Environmental Review, PHA Annual/Five Year Plan, and Executive Compensation reporting until such time as Congress provides adequate funding.
- Allow housing authorities to implement reduced voucher payment standards in a more judicious manner. SERC-NAHRO recommends that Congress require HUD to reduce the current time frames required of agencies to implement reduced payment standards from the households' second reexamination to the greater of 90 days from the date the household is notified or a household's lease anniversary date. This would provide housing authorities with the opportunity to more quickly remedy their funding shortfalls within the existing HAP amounts provided while not imposing undue hardships on families or owners.
- Allow fungibility of Voucher funds when proration falls below 90%. This would permit agencies to utilize HAP funds and/or Net Restricted Assets (program reserves) to support the administration of the program.
- The President's 2019 Budget specifically addresses rent reform. SERC-NAHRO supports rent reform where flexibility is given to the local public housing agency to determine what changes are best needed to support operations and serve low income residents. These **flexibilities** include –
 1. Allow agencies to charge a fair and reasonable minimum rent. A minimum rent of \$50 was established by the Quality Housing & Work Responsibility Act of 1998 (QHWRA). It has been nearly 18 years since the passage of QHWRA and the minimum rent amount has not been adjusted for inflation or market conditions.
 2. Allow elimination of utility reimbursements.
 3. Allow removal/reduction of exemptions and deductions.
 4. Allow application of user fees where feasible.
 5. Current rent structure penalizes work for many residents and is exacerbated by federal taxes. Allow revised rent setting structures that incentivize work.
- Reduce the time-consuming nature of annually collecting utility consumption and cost data by allowing Housing Authorities to develop their utility charts based on one structure type only and, for those Housing Authorities serving multiple counties, allow the averaging of utility consumption and costs on a countywide basis. Currently, most housing authorities must determine utility costs for multiple types of structures.
- Eliminate Interim Re-Examinations unless there is a change of greater than \$2400.00 annually, regardless of whether there is a change in the source of income. (Individual PHA's currently have the ability to adopt interim re-examination policy changes that allow for not conducting an interim re-examination action. However, mechanically PHA's have not been able to fully utilize this provision because it will lead to an income discrepancy in HUD's EIV system.)

HOUSING PRODUCTION (supplemental)

Congress has not funded a program for the construction of Public Housing units since 1995. The number of households needing assistance has increased over time yet the number of available affordable housing units has remained basically unchanged or has decreased. SERC-NAHRO members urge Congress to take steps to ensure an adequate future supply of affordable housing.

LOW-INCOME HOUSING TAX CREDIT PROGRAM

The Low-Income Housing Tax Credit (LIHTC) Program is a vital tool for those working to expand the affordable housing inventory, particularly through the Rental Assistance Demonstration. The 2018 Tax Reform Bill would have spelled disaster for the 4 percent tax credit. Fortunately, the Bill retained LIHTC with no modifications and private activity bonds. Despite retention, it is anticipated that affordable housing development will still be effected due to the reduction of the corporate tax rate from 35% to 21% and the change in the tax credit inflation calculator. The changes are expected to reduce the credit's attractiveness to corporate investors and it is projected to result in up to a 17 percent decline in LIHTC funding. Unfortunately, the Tax Bill did not incorporate aspects of the Affordable Housing Credit Improvement Act (S. 548 and H.R.1661) which would have strengthened the program. SERC-NAHRO requests that the following provisions from the Affordable Housing Credit Improvement Act be incorporated into future legislation –

- Increase the tax credit cap by 50 percent
- Prohibit selection criteria under the Qualified Action Plan (QAP) that is based on support of local officials.
- Fix the 4 percent tax credit at a true 4%
- Decouple the 4 percent tax credit from the private activity bond requirement

HOUSING TRUST FUND

The Housing Trust Fund (HTF) is one method of spurring housing production and any attempts to dissolve the trust fund should be rejected. Authorized under the Housing and Economic Recovery Act of 2008, the HTF would provide formula-based allocations to states to finance the development, rehabilitation and preservation of affordable rental and homeowner housing. SERC-NAHRO urges Congress to permit capitalization of the Trust Fund and ensure housing authorities have access to it, in the form of set asides, for the preservation of their Public Housing stock.

COMMUNITY DEVELOPMENT BLOCK GRANTS

Community Development Block Grants (CDBG) are the cornerstone of community revitalization efforts. CDBG continues to face efforts to eliminate it. Fortunately, the 2018 Budget reflects funding of CDBG at \$3.3 billion, which is an increase of \$300 million. The CDBG Program is one of the most effective forms of federal assistance available to local governments because of its flexibility and local determination of community needs and it should be sufficiently funded. Despite its proven value to communities, CDBG formula funding has declined significantly since FY2005. The President's 2019 Budget continues this trend by eliminating the Program. SERC-NAHRO recommends continued support of the CDBG program with funding at a minimum of \$3.3 billion.

HOME

Since the program began more than 20 years ago, HOME has facilitated the construction, acquisition or rehabilitation of approximately 200,000 owner-occupied units, a half-million homebuyer units and 450,000 rental units. Since its inception, HOME has leveraged approximately \$115 billion of affordable housing funding, and it has been estimated that every \$1 of HOME funds leverages another \$4.16 from other sources. The 2018 Budget funds the HOME program at \$1.4 billion, which is an increase of \$412 million. However, the President's 2019 Budget proposes to eliminate the program. SERC-NAHRO recommends continued support of the HOME program with minimum funding of \$1.4 billion.