SERC-NAHRO

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

AN OPEN LETTER TO CONGRESS

MARCH 2016

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 60 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).

Throughout the United States, housing agencies have been highly successful in providing a critical housing resource through their federally funded Public Housing and rental voucher programs, yet many unmet needs remain. Underfunding of various HUD programs over the past decade has resulted in housing authorities being unable to meet the housing requirements of their communities' families. Through this **Open Letter**, SERC-NAHRO seeks renewed support and a commitment by Congress to sufficiently fund HUD programs and 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.

SERC 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 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 of needs, is available to our nation's families, including our elderly citizens, disabled citizens and our veterans.

OVERVIEW

While this open letter covers many housing issues, SERC has established several priorities that that are critical to effective future operation of the Public Housing Programs. These priorities are as follows –

- Suitable funding of all Public Housing Programs where resources are provided that will allow Housing Authorities to satisfy the housing mission as established by the Department of Housing & Urban Development.
- Passage of the Small Public Housing Agency Opportunity Act of 2015 (or similar legislation), introduced as S. 2292 in the 114th Congress. This legislation will provide regulatory relief for 80 percent of the 3,200 Public Housing authorities that administer the Public Housing and Voucher programs.
- Senate passage of the Housing Opportunity Through Modernization Act of 2016 (HOTMA), which was introduced as H.R. 3700 in the 114th Congress. HOTMA passed in the House on 2/2/2016 by unanimous vote.
- Expansion of the Low Income Housing Tax Credit (LIHTC) allocation, including the permanent authorization of the 4 percent LIHTC, to address the growing need for affordable housing.

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

PUBLIC HOUSING

GENERAL

Public Housing has been one of the cornerstones of the federal government's assisted housing effort for nearly 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 resident's 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 estimated need to fully subsidize the Operating Fund for 2016 is $5.37 Billion. Congress and the Administration agreed to $4.50 billion for the 2016 Operating Fund, an amount that provides housing authorities with an estimated 84 percent proration of eligibility. While this is an increase from the 2015 funding, this proration still falls well short of what is needed to efficiently operate the Public Housing Programs. Housing authorities are working with less staff, foregoing needed maintenance projects, and trying to make the reduced funding they receive cover ever-increasing expenses. Industry estimates indicate that $5.464 billion is needed to fully support the Operating Fund for calendar year 2017. SERC urges Congress to consider the adverse impact decreased funding has had over the last several years 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 resulting in the loss of viable units, deferment of needed repairs, and has been an impediment to proper facility management. Congress approved only $1.900 billion for capital funding for this calendar year, far less than the estimated $5.0 billion in need for 2016 and well below the $3.5 billion in annually accruing capital needs. The need for capital improvements increases with the aging of the housing stock, while appropriations have dwindled. As a result, a deficit of nearly $15 billion of estimated needs has accrued over the past five years. SERC urges Congress to provide $5.0 billion in Capital Funding for 2017; otherwise, the physical needs of our public housing properties will continue to grow, threatening its viability.

PUBLIC HOUSING PROGRAM REFORMS

The President's Executive Order 13563 directs government agencies to make their regulation "less burdensome." The Order further states "these principles should guide the federal government's approach, not only to new regulation but to existing ones as well." Unfortunately, the Department of Housing & Urban Development (HUD) continues to move forward with implementation of new and costly requirements such as the Physical Needs Assessment, revised Section 3 reporting requirements, Executive Compensation reporting, and Impediments to Fair Housing study. In addition, HUD has moved or is moving forward with other requirements that will make Public Housing operations more difficult. These include No Smoking Policy requirements, Flat Rent changes, and applicant screening limitations. It is obvious that HUD is moving in the opposite direction that EO 13563 directs. SERC encourages Congress to take the following actions to address this:

- Passage of the Small Public Housing Agency Opportunity Act of 2015 (or similar legislation), introduced as S. 2292 in the 114th Congress. 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 proposal 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. The Small

Public Housing Agency Opportunity Act introduces a number of significant reforms, including revised assessment systems, limits administrative requirements, alternative rent structures, fungibility of housing assistance, and other time- and cost-saving measures. We encourage our Senators to vote for passage of S. 2292 and ask that our House of Representatives members sponsor similar legislation in the House. If Congress does not pass this proposal, SERC requests that the recommendations contained in the SHARP proposal be incorporated into any larger reform bill Congress might consider.

- Senate passage of the Housing Opportunity Through Modernization Act of 2016 (HOTMA), which was introduced as H.R. 3700 in the 114th Congress. HOTMA includes provisions that will reduce administrative burden, strengthen work incentives, help preserve public housing, and improve our resident's quality of life. HOTMA also contains language that will address over-income households while still providing local flexibility. HOTMA passed in the House on 2/2/2016 by unanimous vote.
- 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.
- Allow agencies to charge a fair and reasonable minimum rent. A minimum rent of $50 was established in 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.
- Allow blanket regulatory suspensions and waivers under 24 CFR Part 5.
- Reauthorization and broad-based expansion of the Moving to Work (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. SERC-NAHRO members support S. 65, the Moving to Work Charter Program Act of 2015, which would expand the program to 250 additional agencies.
- For several years now, funding bills have included language exempting housing authorities that own and operate 400 or fewer Public Housing units from asset management requirements. We ask that this exemption be made permanent through statute.
- Allow local flexibility in the establishment of policies to address over-income households.
- Suspension of HUD efforts to re-federalize Central Office Cost Centers (COCC) funds.

RENTAL ASSISTANCE DEMONSTRATION

The Rental Assistance Demonstration (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.

HOUSING CHOICE VOUCHER PROGRAM

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**

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.

HOUSING CHOICE VOUCHER FUNDING LEVEL

The 2016 Omnibus Bill provides $17.682 billion for Voucher renewals, which current estimates indicate will fully fund all existing vouchers in the program. 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 Payments 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. SERC supports the President's 2017 Budget proposal request of $18.447 billion for Voucher renewals, which would fully fund all existing vouchers. However, while funding of these vouchers is greatly appreciated, it does little to address depletion of the Voucher program that has resulted from prior proration.

HCV PROGRAM ADMINISTRATIVE FEES

In April of 2015, HUD released its Housing Choice Voucher Administrative Fee Study, which found that current levels of funding were vastly below the amounts required to properly administer the program. It appears that no consideration was given to the HCV study as administrative fees for 2016 were funded at $1.650 billion, an estimated underfunding of over $500 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 President's 2017 budget requests $2.084 billion, which will underfund administrative fees by approximately $109 million. SERC requests that Congress provide the additional funding necessary to fully fund administrative fees.

HOUSING CHOICE VOUCHER PROGRAM REFORMS

The passage of the Fixing America's Surface Transportation (FAST) Act of 2015 instituted triennial recertifications of fixed income families, which will benefit Housing Authorities administratively. Otherwise, no other reforms of significance have been recently approved. There are several actions Congress and HUD can take to cut future program and administrative costs. In requesting reforms, SERC recognizes the need for balance between program changes, Housing Authorities' responsibility to assist and support residents, and responsible government oversight. SERC encourages Congress to take the following actions to introduce reforms:

- Passage of the Small Public Housing Agency Opportunity Act of 2015 as previously covered in this letter.
- Passage of the Housing Opportunity Through Modernization Act of 2016 (HOTMA) as previously covered in this letter.
- Institute a moratorium on new rules, regulations and reporting requirements until such time that adequate funding can be provided to support heavier work-loads.
- 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 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'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.
- 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.
- Allow housing authorities to implement reduced voucher payment standards in a more judicious manner. SERC 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 agencies to charge a fair and reasonable minimum rent. A minimum rent of $50 was established in 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.
- 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.
- 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.

HOUSING PRODUCTION

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 members urge Congress to take steps to ensure an adequate future supply of affordable housing.

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. The 2016 Omnibus Bill leaves HTF funding intact with budget projections estimated at $120 million to be provided through assessments from the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). The 2016 HTF funding will result in the production of approximately 1,000 units of affordable housing over time. SERC urges Congress to not only permit this capitalization of the Trust Fund, but to ensure housing authorities have access to the Trust Fund, 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. Despite efforts to cut CDBG spending, the 2016 Omnibus Bill level funds the program at $3.0 billion. 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. Unfortunately, the President's 2017 Budget continues this trend by seeking to reduce funding by $200 million below 2016 enacted levels. SERC recommends continued support of the CDBG program with increased funding to a minimum of $3.3 billion.

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. The 2016 Omnibus Bill contained a tax extenders package that permanently authorized the 9 percent LIHTC. Unfortunately, the 4 percent was not included. SERC urges lawmakers to permanently extend the four percent credit rates enacted in the 2008 Recovery Act. Additionally, SERC urges an increase in the LIHTC allocation to address the growing need for affordable housing, and we urge passage of legislation that will allow localities to convert private activity bond authority to LIHTC.

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, and it has been estimated that every $1 of HOME funds leverages another $4.16 from other sources. The 2016 Omnibus Bill funded the HOME program at $950 million, an increase of $50 million. The President's 2017 Budget proposes to level fund the program. SERC recommends continued support of the HOME program with additional increases in funding to $1.2 billion.