

**Testimony of Saul N. Ramirez, Jr., Executive Director  
National Association of Housing and Redevelopment Officials  
House Appropriations Subcommittee on VA, HUD, and Independent Agencies  
April 9, 2003**

Good morning, Mr. Chairman. I am Saul N. Ramirez, Jr. and I am the Executive Director of the National Association of Housing and Redevelopment Officials (NAHRO). NAHRO is the nation's oldest and largest membership organization in the United States devoted to affordable housing and community development. NAHRO represents more than 19,000 agencies and associates that include 95% of Local Housing Authorities.

NAHRO welcomes the opportunity to testify before you on the President's FY 2004 budget proposals. On behalf of our members, let me thank you and your staff for the leadership you exercised last year in reaching an agreement with the Senate on language to address the recapture of unused Section 8 funds. We believe the settlement that was accomplished is a realistic technique to help preserve housing resources for housing programs.

Congress' clear intent under this new methodology was for local housing agencies to have the resources to serve the maximum number of authorized families possible. HUD is currently gathering critical lease up and cost data that will help us all in our effort to ensure an efficient funding stream for the voucher program and reduce recaptures. We look forward to working with the Department and Congress to ensure that implementation and overall voucher funding provided under this new methodology fulfills Congress' intent.

NAHRO believes the president's budget falls short of addressing the growing affordable housing and community development needs in the country. In general, the president's budget:

- Converts the Housing Choice Voucher program into a block grant to states;
- Eliminates \$574 million in funding for the revitalization of severely distressed public housing communities;
- Underfunds public housing, failing even to restore a \$250 million shortfall in public housing operating funds caused by the administration's own accounting error;
- Eliminates several vital economic development programs including the Brownfields Economic Development Initiative, Section 108 Loan Guarantees, Empowerment Zones/Enterprise Communities, and Rural Housing and Economic Development; and
- Undermines investor interest in the Low Income Housing Tax Credit (LIHTC), the nation's primary affordable housing development program, potentially reducing the number of homes created under the program by 40,000 annually.

I would like to focus on specific elements of the Administration's FY 2004 budget proposal.

### **Section 8 Vouchers**

The Housing Assistance for Needy Families (HANF) proposal, which converts the successful voucher program into a state-administered block grant, is ill conceived and will hamper local efforts to provide affordable housing to low-income families.

The current voucher program is an effective, locally administered program that provides housing assistance to close to 2 million families nationwide. The voucher program is used to supplement other federal, state, and local housing programs serving low-income programs such as HOME

and the LIHTC. The bipartisan, congressionally-chartered Millennial Housing Commission concluded that the voucher program is “flexible, cost-effective, and successful” and should be a “linchpin” of national housing policy. HUD currently has strong tools for evaluating and rewarding performance: SEMAP, the reallocation of unused vouchers and incremental voucher awards. HUD’s SEMAP assessment system has enabled HUD field offices to focus limited resources effectively when monitoring and providing technical assistance in the voucher program<sup>1</sup>. Local agencies have demonstrated their effectiveness in helping families access affordable housing. In testimony before this committee, HUD Assistant Secretary Liu estimated a 96 percent lease-up rate in FY 2004.

NAHRO’s members are deeply concerned that the conversion to block grants will diminish housing resources nationwide. A block grant based upon an inflation-adjusted FY 2004 figure --- as assumed by the Administration’s budget --- will result in the immediate loss of tens of thousands of currently-authorized vouchers and a likely erosion of housing resources thereafter<sup>2</sup>. The current voucher program is funded based on the actual rental cost of a unit, adjusting to market conditions. Block grants, which generally stagnate or increase at inflation-adjusted rates, are unlikely to respond to market demands.

With the likely erosion of federal contributions, already-strapped states and local governments will be required to find other resources to help house families, provide shallower subsidies, serve higher-income families, or decrease the number of families served altogether if permitted by HUD. At a time when just one in four eligible families actually receive voucher assistance, the administration’s block grant proposal threatens vital housing resources.

In addition to their concerns about funding, NAHRO’s members have many operational concerns about the proposal as outlined thus far. The voucher program is a market-driven program that requires local knowledge and understanding of market conditions. The program relies upon local housing agencies working with landlords large and small, local code requirements, and changing housing markets to serve families. The Administration itself has asserted that housing is a local issue. Realizing the need for local administration, some states will consider subcontracting the voucher program to local agencies. As outlined thus far, the HANF proposal will simply add a middleman to the process, reducing local agencies’ flexibility to respond to program and family needs.

Nationwide, states currently have an untested capacity to administer a large-scale housing voucher program. More than half of the states have no experience in administering the tenant-based assistance program, have relinquished the program to local administrators, or administer less than 5 percent of all vouchers within their respective jurisdictions. The cost of developing the technological capacity to administer the program and transfer data between state, federal, and local entities alone will be prohibitive. At a minimum, administrative conversion of the program will cause great, unnecessary disruption in the operation of a successful program so many families rely on.

Administrative confusion and funding uncertainty are likely to reduce landlord and bank participation in voucher rental and homeownership programs. Landlords and mortgage lenders require consistency and uniformity in funding streams. By creating a patchwork of 50 different programs administered by various state agencies, the proposal sets up a bureaucratic challenge

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<sup>1</sup> HUD’s *SEMAP Report to Congress* (April 2002)

<sup>2</sup> “Funding Adjustments Under a Housing Voucher Block Grant Would be Unlikely to Keep Pace with Program Needs,” Center on Budget and Policy Priorities, April 1, 2003.

for owners and bankers who operate in multiple states. Landlords may be driven away from the program, reducing the number of affordable units available for low-income housing. Several national organizations representing landlords have already voiced opposition to the proposal. Families that may qualify under current Section 8 homeownership programs may find themselves excluded by financial institutions concerned over the uncertainty this proposal presents. The multiplicity of state requirements may also serve to limit voucher portability, inhibiting families' ability to seek out housing and job opportunities.

NAHRO recognizes that there are measures that can be taken to strengthen the program and streamline administration. Some of these actions can be taken by HUD right now, such as ensuring prompt reallocation of underutilized housing vouchers to other high-performing agencies in the area. Others may require statutory changes. NAHRO looks forward to engaging in these discussions

### **Public Housing**

Public housing is home to 3 million people across the country and represents a public real estate investment of \$100 billion. Despite the value of this resource, the Administration's budget for 2004 requests nearly \$900 million less for public housing than Congress provided for 2001. These funding challenges threaten the safety, security, and well being of assisted families and surrounding communities. Systematic disinvestment in the nation's stock of public housing undermines the viability of 1.2 million units of affordable housing.

The Department's 2004 budget requests \$89 million less for the Public Housing Capital Fund than Congress provided in 2003. The Capital Fund pays for repairs and improvements that keep the doors of public housing open to needy families, the elderly, and disabled --- replacing roofs, heating systems, or windows, etc. This request falls well short of the amount necessary to keep pace with inflation, let alone address longstanding capital needs.

The capital needs study published by HUD in 1998 shows that the total backlog, or existing modernization need, in public housing is about \$24 billion. Conservatively, over ten years an investment of at least \$2.4 billion per year would be needed to eliminate the backlog. Another \$2 billion in current needs accumulates each year, for a total annual financial need of at least \$4.4 billion. From FY 1999-2003, roughly \$3 billion per year was appropriated, substantially below the level that would address needs. Accrual needs that are unmet become part of the backlog. Increasingly, HUD and Congress rely on the fund for non-capital expenditures and set-asides, and continue to reduce effective funding amounts, reducing the value of the appropriation even further.

In order to stop this cycle and preserve the public housing portfolio as an affordable housing resource, a strong commitment to capital funding is needed from both HUD and Congress. NAHRO recommends a FY 2004 appropriation of \$3.5 billion, absent of set-asides. This funding should be provided in addition to that provided in the HOPE VI program.

NAHRO strongly supports continuation of the HOPE VI program. HOPE VI has transformed neighborhoods, improved people's lives and created public private partnerships that act as models for other programs. HOPE VI performs the dual function of eliminating obsolete public housing and replacing it with mixed-income neighborhood-revitalization developments. The need for HOPE VI is great: between 1997 and 2001, the Department awarded funding to just 22 percent of communities that applied for revitalization funds. Given the estimated \$24 billion

backlog of capital improvement needs, the Administration's net reduction of nearly \$600 million in capital resources provided through HOPE VI is a recipe for neighborhood deterioration.

Some changes to the HOPE VI program, both statutory and administrative, are warranted. NAHRO suggests efforts to streamline and add consistency to the annual application process, broaden the eligibility criteria to include more agencies and developments, and allow more innovative development strategies. We look forward to working with Congress and the Department to build on lessons learned this far and strengthen this successful program.

At \$3.574 billion, the Administration's FY 2004 budget request for the Public Housing Operating Fund is \$26 million less than the amount Congress provided for 2003. This funding level appears to fall far short of need. In 2002, a total appropriation of \$3.73 billion would have been necessary to avert the \$250 million shortfall. Assuming a conservative 3 percent increase in the costs of insurance, labor, utilities, total need in FY 2003 would have required approximately \$3.9 billion in appropriations --- far more than proposed for 2004.

NAHRO recommends a \$4.1 billion funding level for the Operating Fund in FY 2004. This funding level will restore a \$250 million shortfall first created by the Department in FY 2002, begin to address skyrocketing post-9/11 insurance costs and increasing energy prices, and give agencies the resources necessary to maintain effective housing assistance to families.

Agencies are still struggling with the 2002 shortfall and its spillover effects into 2003. This situation has disrupted day-to-day operations, necessitating lay-offs and reduction in resident services. HUD has announced its intent to fund agencies at 90 percent of operating subsidy need for 2003, but this situation could change as additional agency funding request deadlines bring in more information. At less than 100 percent of need, agencies must reduce services, tap shrinking reserves, or find additional resources to subsidize public housing operations.

Congress created the public housing appropriations to fill the gap between the cost of operating real-world rental properties and the amount the federal government determined that low-income families could afford to contribute toward their upkeep. Failure to live up to these commitments breaks an obligation to housing agencies, presenting daily challenges. Worse yet, failing to provide the resources necessary to preserve public housing breaks the federal government's long-standing commitment to help low-income families, the elderly, and the disabled find decent, safe, and sanitary affordable housing

### **Economic Development Tools**

The administration's FY 2004 budget eliminates several vital economic development programs including the Brownfields Economic Development Initiative, Section 108 Loan Guarantees, Empowerment Zones/Enterprise Communities, and Rural Housing and Economic Development.. This omission sends a troubling message to the private sector and local communities -- that HUD is no longer interested in partnering with them to create economic opportunities across the country. In FY 2003, funding for these programs totaled approximately \$87 million. I would like to focus on the impact of two of these programs.

Since 1974, communities have used the Community Development Block Grant (CDBG) program to address local priorities around housing, services and economic development. Yet due to the nature of the program and the limits of the funding, it was difficult for communities to plan large scale revitalization projects to effectively address broader community needs. The Section 108 loan guarantee program allows communities to use up to five times their annual CDBG

allocation as a federally guaranteed loan that provides an amount large enough to pursue physical and economic revitalization projects that can renew entire neighborhoods. Over 1,200 projects have been funded since the program's inception in 1978.

The Brownfields Economic Development Initiative (BEDI) is one of the key competitive grant programs that HUD administers to stimulate and promote economic and community development activities. BEDI is designed to assist cities with the redevelopment of abandoned, idled and underused industrial and commercial facilities with expansion and redevelopment of real or perceived environmental contamination. BEDI funds are used for economic development projects to increase opportunities for low-and moderate-income persons to stimulate or retain businesses or jobs that would otherwise lead to economic revitalization. The \$79 million in funding invested in this program between 2000 and 2002 was used to further projects totaling more than \$2.39 billion, and leveraged at least \$4 in Section 108 funds and \$26 in other funds for every BEDI dollar awarded.

### **Conclusion**

We need a renewed commitment to rental housing for very low-income families at both the legislative and bureaucratic levels. The administration's current focus solely on home ownership fails to recognize that many families, especially low-income and minorities targeted for home ownership programs, need to develop stable rental and credit histories. Rental assistance programs like public housing and vouchers can help them do that. Additionally, programs like CDBG, the Section 108 program and the BEDI are all vital cogs in our member's efforts to provide decent, safe, affordable housing and economic opportunities to low income families.

NAHRO's members believe that continued efforts to address unmet housing needs and revitalize communities benefits the whole nation, not just families receiving direct assistance. Funds provided to communities through these efforts create jobs around the country, give families a hand up into the economic mainstream, and provide stable healthy places for children to grow. At a time of economic distress in our country, it would be a shame to dismiss our proven tools for economic and community growth. Our recommendations on FY 2004 appropriations follow.

### **NAHRO's FY 2004 Recommended Funding Levels**

HOME	\$2.25 billion	Public Housing Operating	\$4.1 billion
HOPWA	\$297 million	Public Housing Capital Fund	\$3.5 billion
CDBG	\$5 billion (formula)	Public Housing Security	\$310 million
Homeless Assistance	\$1.325 billion	HOPE VI	\$625 million
Affordable Housing		Section 8 Vouchers	Renew all vouchers
Production	\$1 billion	ROSS	\$55 million
Brownfields	\$25 million	Service Coordinators	\$50 million
Section 108	\$15 million	Rural Housing and	
Empowerment Zones/ Enterprise Communities	\$30 million	Economic Development	\$25 million

History has shown as a nation we are committed to crafting sound national housing policy for those who need safe, decent, and affordable rental housing and helping families attain homeownership. At question is whether the Congress is prepared to continue this commitment. The program cuts embodied in the Administration's FY 2004 budget make Congress' task more difficult.