



National Association of Housing and Redevelopment Officials

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Testimony of Saul N. Ramirez, Jr., Executive Director

National Association of Housing and Redevelopment Officials

**Regarding the FY 2007 Transportation, Treasury, Housing and Urban Development, the Judiciary,
District of Columbia Appropriations Act**

April 14, 2006

On behalf of the 21,000 members of the National Association of Housing and Redevelopment Officials (NAHRO) I ask for your support for affordable housing and community development in the FY 2007 Transportation, Treasury, Housing and Urban Development, the Judiciary, and District of Columbia Appropriations Act. NAHRO embodies principles that have for more than seven decades formed the basis of this association's work: preservation of the existing affordable housing inventory; production to increase the inventory; and support for the development of quality communities. We ask you to seek full funding for federal housing and community development programs, including Section 8 rental assistance, public housing, Community Development Block Grants (CDBG), HOME, and programs to assist the homeless in your FY 2007 bill. A full listing of NAHRO's funding recommendations is included at the conclusion of this testimony.

Public Housing

We request that your appropriations act reverse an unwise pattern of disinvestment in the nation's public housing. America's public housing inventory is a \$90 billion public asset providing affordable housing to 1.1 million families in large and small communities across the country. Approximately 50 percent of assisted families are headed by the elderly or persons with disabilities.

Despite the value of these public housing assets to our communities, the administration's FY 2007 budget does not provide funding necessary to maintain them. Public housing faces an estimated \$18 billion backlog of capital repairs. Yet the budget reduces funding for the Public Housing Capital Fund for major repairs by \$261 million (11 percent). The administration's budget also seeks to eliminate the HOPE VI program for comprehensive revitalization of the most distressed public housing communities and even rescinds \$99 million in FY 2006 HOPE VI funding provided by Congress. To address capital needs in FY 2007, NAHRO requests \$3.5 billion in Capital Funds. For the revitalization of the most severely distressed communities, we request \$600 million in HOPE VI funding.

During Secretary Jackson's March 14 testimony before the Committee, he asserted that implementation of HUD's planned transition to asset management and project-based accounting would somehow ameliorate the public housing budget shortfall produced by the administration's requested funding levels. The President's FY 2007 budget provides housing agencies just 81 cents of every dollar needed to cover basic operating costs such as maintenance, utilities, and eligibility verifications. HUD's own budget justifications state that at least \$4.2 billion is necessary to support the new formula even after the transition; NAHRO's estimate is \$4.35 billion. And although the Department has requested additional funding for its own conversion costs to a project-based system, it does not request any funding for agencies' conversion costs. NAHRO previously asked Congress for \$150 million to help cover these expenses, especially for smaller agencies that will have reduced operating subsidy under the new formula.

Total funding for public housing has dropped precipitously over this decade. The President's budget for FY 2007 requests nearly \$1.5 billion less for public housing than Congress provided for FY 2001. This drop in resources has constrained local agencies' ability to address safety and security needs, provide valuable services to those seeking economic self-sufficiency and independent living, and undermined

agencies' ability to meet the recent surge in utility costs. The Subcommittee's FY 2006 mark took steps to improve significantly upon the Administration's requested funding levels for the Public Housing Operating and Capital Funds. We ask you to seek full funding for public housing programs in order to secure the ongoing viability of this valuable affordable housing asset.

Section 8 Tenant-Based Rental Assistance

For FY 2007, we ask you to support the Administration's request of \$14.436 billion for Section 8 Tenant-Based Voucher Housing Assistance Payment funds. The request appears sufficient to provide assistance to the number of families served in the voucher program in FY 2007 if distributed efficiently.

HUD Secretary Jackson has indicated that the voucher program budget is a "cancer" eating up the HUD budget and blamed the program for reductions in other HUD programs. However, the total amount of HUD's proposed FY 2007 program budget cuts and rescissions (\$2.4 billion) is more than four times greater than the requested increase in Section 8 Housing Choice Voucher program and administrative funding. Clearly, the federal government's ongoing support of approximately 2 million families in the voucher program is not the primary driver of cuts in other areas of the HUD budget.

We urge the committee to take this opportunity to provide a more effective voucher funding formula to make the most efficient use of available funds. The budget-based formula in place over the last three years uses a three-month "snapshot" of formula cost and unit data from May – July from prior years. Although billed as a more stable and predictable formula, local agencies' funding has been prorated well below 100 percent in each of the past two years. In FY 2006, a year in which the committee predicted that the House-passed bill would "restore the reduction mandated last year and fund all anticipated increases in ...costs" voucher program funding was ultimately prorated by -5.25 percent. We urge the committee to look into the factors driving this proration.

From April 2004, when the program first converted to the snapshot formula, to September 2005, more than 100,000 fewer voucher-assisted households were served. This drop is unprecedented in the history of the Section 8 tenant-based program. Our analysis indicates that agencies' funding shortfalls were due in large part to the inefficient distribution of funds under the snap-shot driven formula. While many agencies were credited with more funds than they can use under the program, many other agencies' budgets fell, causing them to reduce the number of families served or reduce subsidy levels. In FY 2006, the committee created a \$45 million remediation fund to address certain problems created by the snapshot formula in 2005. To remedy formula issues in FY 2007 and ensure limited federal resources can be distributed to agencies in diverse housing markets in a rational and efficient manner, we request your assistance in restoring a renewal funding formula based on the most recent 12 months' worth of leasing and voucher cost data available through September 30, 2006.

NAHRO recommends that the committee provide \$1.4 billion for Section 8 Tenant-Based Assistance administrative fees. These funds enable local agencies to: provide vouchers; assist families in locating safe, decent housing in communities of opportunity; support families' efforts to attain self-sufficiency; and conduct eligibility verification and fraud-prevention activities. In his testimony before the subcommittee, HUD Secretary Jackson indicated that he believes administrative fees earned should be married to the number of families leased. But in FY 2004 the historic relationship between earned fees and the number of low-income families leased was severed. In that year, administrative fee funds began to be distributed on a pro-rata formula rather than based on the number of voucher-assisted households agencies assisted each year, and HUD has continued this policy in each subsequent budget. NAHRO has consistently recommended restoration of earned administrative fees based on authorized leased units, restoration of the administrative fee rate established under the Quality Housing and Work Responsibility Act; and restoration of special fees provided to support activities such as helping hard-to-house families find homes.

Community and Economic Development

The administration's proposed budget for fiscal year 2007 contains deep cuts in the Department's affordable housing and community development programs which are critical to sustaining our communities. The President's budget request cuts funding for the CDBG formula by nearly \$1 billion (25 percent) compared to the FY 2006 enacted level. Under the guise of consolidation, the President's budget also eliminates several smaller but vital economic development programs, including the Brownfields Economic Development Initiative, Rural Housing and Economic Development, and the Section 108 Loan Guarantee program. If enacted, these cuts would represent an alarming retreat from the federal government's partnership with states, cities, and counties to provide affordable housing, strengthen local economies, and promote quality communities for low- and moderate-income Americans.

We urge you to fully fund CDBG formula grants at \$4.5 billion. The FY 2007 budget proposes \$2.975 billion in funding for CDBG grants. HUD officials have stated publicly that \$200 million would be set aside for competitive "challenge grants" under the Administration's forthcoming legislative proposal. This would leave just \$2.775 billion for CDBG formula grants, a reduction of \$936 million compared to the appropriated level for FY 2006. Since FY 2004, funding for the CDBG formula has declined by 14 percent. These reductions have had real and harmful consequences for the efforts of states, counties and cities to strengthen our nation's communities. A recent NAHRO survey of 34 states and 317 entitlement communities, representing approximately 50 percent of all CDBG formula grants for FY 2006, found that five million fewer low- and moderate-income persons in these states and communities have access to programs funded through CDBG than in 2004, including 256,000 elderly, 391,000 children and young people, 253,000 people with special needs, and 196,000 homeless individuals. These problems can only be magnified by the Department's recommended 25 percent reduction in CDBG funds.

The CDBG program's emphases on flexibility and local prioritization of needs through citizen participation allow state and local governments to achieve tangible results. In 2004, the most recent year for which HUD has data, CDBG funding led to the creation or retention of more than 90,000 jobs, supported public infrastructure projects benefiting 9 million Americans, and supported the rehabilitation of more than 130,000 rental units and single-family homes. More than 11,000 Americans became homeowners in 2004 thanks to CDBG. The CDBG program's design is especially successful at targeting resources to those who need them most. In 2004, 95 percent of CDBG funds expended by entitlement grantees and 96 percent of CDBG funds expended by states supported activities that principally benefited low- and moderate-income persons. The program continues to leverage around three dollars for every one dollar of federal investment.

The CDBG program's accountability will be strengthened by HUD's new outcome-based performance measurement system. The framework of outcomes and performance measurement indicators underpinning this new system was developed with public interest groups such as NAHRO and approved by both HUD and the Office of Management and Budget in November 2004.

In his testimony before your Committee, the Secretary maintained that the massive cut to CDBG would be balanced by HUD's forthcoming formula proposal, which the Department claims would more effectively target funds toward communities in need. The Secretary cited Akron as an example of a suffering community that deserved more funding under a new formula, and Dallas as a community that did not need CDBG. HUD published an analysis of four alternative CDBG formula scenarios in February 2005. Under any of these scenarios, Dallas would actually gain funding relative to its standing under the current formula structure, but Akron would lose money relative to its allocation under the current system.

In other Congressional testimony, the Secretary has indicated that HUD would mitigate CDBG funding cuts by reducing the number of entitlement communities by 70 or 80. Currently, 1186 cities, counties, state programs, and insular areas receive grants through the CDBG formula program. HUD would need to

eliminate the 946 of the smallest grants in order to maintain FY 2006 funding levels for the 240 states and communities receiving the largest grants at the President's proposed funding level. Whatever the merits of any individual formula that the Department would propose, it is difficult to see how they can ameliorate an overall 25 percent reduction in CDBG funds.

Affordable Housing and Homelessness

NAHRO supports \$2 billion for HOME formula grants. Since its inception in 1992, the effective HOME program has helped create more than 700,000 units of affordable housing across America. NAHRO supports the Administration's overall request for \$1.536 billion for Homeless Assistance Grants without set-asides. As proposed, set-asides would reduce available funding for existing Homeless Assistance Grants programs by \$16 million compared with the FY 2006 enacted level, at a time when renewal needs in the Shelter Plus Care and Supportive Housing programs are growing by approximately \$75 million, according to HUD estimates. NAHRO opposes HUD's proposal to set aside 30 percent of homeless assistance for permanent, supportive housing because we believe that communities are in the best position to allocate resources where they are most needed. We strongly support goals to end homelessness, but believe that sufficient resources should be provided for all types of individuals and families facing homelessness.

FY 2006 Supplemental Needs

Nearly eight months after the hurricanes struck, significant rebuilding needs confront Gulf Coast communities and families, particularly those with low incomes. NAHRO believes there is a continued and urgent need for new, dedicated resources for the repair and reconstruction of damaged and destroyed public housing as well as supplemental resources in the form of Community Development Block Grants (CDBG). NAHRO strongly supports the decision of the House in HR 4939 to direct \$1 billion of supplemental CDBG funding toward the repair, rehabilitation, and reconstruction of the affordable rental housing stock in the impacted areas. This is a significant improvement over the Administration's request, which was silent on the matter of preserving the region's affordable rental housing stock.

There is no guarantee that a sufficient share of these dollars will be applied toward the repair and reconstruction of public housing units damaged or destroyed during the 2005 hurricane season. NAHRO believes a combination of new Capital Fund resources and dedicated CDBG funds will best help to ensure that HUD, working with state and local housing and community development agencies in the impacted region, is able to follow through on the important Congressional mandate established by HR 2863 requiring the Department to preserve housing that received project-based assistance. NAHRO urges you to ensure that the final version of HR 4939 includes no less than \$1 billion in CDBG funding directed toward the repair, rehabilitation, and reconstruction of the affordable rental housing and no less than \$200 million in public housing Capital Fund dollars for emergencies and natural disasters that occurred during Fiscal Year 2005.

We request that you also provide emergency funding for unanticipated utility costs resulting from the 2005-2006 energy crisis. The public housing and Section 8 housing voucher assistance programs help low income families pay for housing costs, including utilities. However, the FY 2006 budgets for both programs did not contemplate the recent explosive growth in energy costs, which were exacerbated by the 2005 hurricane season. In the public housing program, \$250 million will be necessary to offset agency-borne utility costs and maintain housing quality. In the Section 8 voucher program, we estimate that \$243 million will be necessary to permit agencies to adjust families' utility assistance without increasing rent burdens or reducing the number of families served in their communities.

Summary

Finally, I want to take a moment to address statements made by the Secretary regarding the performance of local housing agencies in administering the Section 8 program before your Subcommittee and Congress. We have written to the Secretary about such statements, and have asked for data to support his statement that 18 – 20 percent of voucher holders should not be participating in the program. NAHRO members take great exception to statements impugning their professionalism in the administration of affordable housing resources in their communities. NAHRO’s members confront our nation’s housing and community development needs on a daily basis, constantly in search of new strategies to maximize the impact of available resources, and the successes we experience are testaments to the creativity and ingenuity of our nation’s housing and community development professionals.

Despite high rates of homeownership, many Americans still do not live in safe, decent, and affordable housing. Nearly 14 million American families face severe housing needs, paying over 50 percent of their incomes toward housing costs or living in substandard housing. On any given night, 850,000 people, many of them children, are homeless. Communities seek to create housing and economic opportunities for lower income families. In the face of these needs, the federal government must maintain its commitment to preserving and expanding affordable housing for our fellow citizens. As you prepare the FY 2007 TTHUD Appropriations Act, we request that you bear these needs in mind.

Thank you for your continuing attention to America’s housing and community development needs. If you have any questions about this testimony, please contact me or John Bohm of my staff at 202-289-3500.

NAHRO FY 2007 Funding Recommendations (Requested and recommended funding for stand-alone program unless otherwise specified)			
Program	NAHRO FY 2007 Recommendation	Program	NAHRO FY 2007 Recommendation
Public Housing Operating Subsidy	\$4.35 billion	CDBG Formula Grants	\$4.5 billion
Supplemental FY 06 Public Housing Utility Funds	\$250 million	HOME Formula Grants	\$2.0 billion
Public Housing Capital Fund	\$3.5 billion	Homeless Assistance Grants	\$1.536 billion
HOPE VI	\$600 million	HOPWA	\$300 million
Public Housing Safety and Security	\$310 million	Sec. 108 Loan Guarantees	\$7 million
Tenant-Based Rental Assistance	\$14.7 billion	Brownfields Economic Development Initiative	\$25 million
Vouchers Housing Assistance		Rural Housing and Economic Development	\$25 million
Tenant-based administration (fees)	\$1.4 billion	Empowerment Zones/ Enterprise Communities	\$30 million
Supplemental FY 06 Sec. 8 Voucher Utility Funds	\$243 million	Affordable Housing Production	\$1 billion ²
Tenant-Protection Vouchers	Fully fund	Sec. 8 Project-Based Rental Assistance	Fully fund
Section 8 Family Self-Sufficiency Coordinators	\$72 million	ROSS, including Public Housing family service coordinators	\$55 million
Service Coordinators for elderly and disabled persons	\$50 million funded separately (no set-aside)		

¹ Including Contract Administrators account.

² Funds for affordable housing production would be identified outside of federal appropriations to the extent possible.