



Strengthening Neighborhoods.
Improving Lives.

Council of Large Public Housing Authorities

455 Massachusetts Avenue, NW, Suite 425

Washington, D.C. 20001-2621

Executive Director: Sunia Zaterman

phone: 202.638.1300 | **fax:** 202.638.2364

web: www.clpha.org

**Statement for the Record
Submitted by
Sunia Zaterman, Executive Director
Council of Large Public Housing Authorities**

**for the Hearing entitled
“The Future of Housing in America:
Increasing Private Sector Participation in Affordable Housing”**

**United States House of Representatives
Subcommittee on Housing and Insurance
Committee on Financial Services**

April 16, 2015

The Council of Large Public Housing Authorities (CLPHA) appreciates the opportunity to submit this statement for the record for the hearing entitled “The Future of Housing in America: Increasing Private Sector Participation in Affordable Housing.”

CLPHA represents public housing authorities from most major metropolitan areas in the country. On any given day, CLPHA members are collectively serving more than one million households. Together, they manage almost half of the nation’s multi-billion dollar public housing stock; administer over a quarter of the Section 8 rental assistance voucher program, and operate a wide array of other housing programs. Our members are in the vanguard of housing providers and community developers.

We thank the committee for holding this hearing as we are strong proponents of increasing private sector investment in affordable housing, evidenced by our strong support for the HOPE VI program, Choice Neighborhoods Initiative (CNI), Rental Assistance Demonstration (RAD), Moving to Work (MTW), Low Income Housing Tax Credit (LIHTC), Housing Trust Fund (HTF) and other programs that allow and encourage the use of federal resources to leverage private sector investment. It is important to note there has not been any significant public housing redevelopment in the past two decades that has not used LIHTC. The private market has not made significant investments in the redevelopment of public housing without federal resources. **Development of deeply affordable housing is simply not possible without public investment.** However, there are a number of ways that federal regulations and policies that are obstacles to private investment can be modified to further incentivize private sector participation.

As the committee well knows, public housing authorities have suffered from decades of underinvestment by the federal government. This has resulted in a massive backlog, estimated at \$26 billion by a recent study, of deferred maintenance in aging properties, some built more than 40 or 50 years ago. The lack of funding has led to an annual loss, on average, of 10,000 units of rental housing because they are in such disrepair they can no longer safely house people.

The goal of RAD is to recapitalize public housing developments with a combination of public and private sector investment through a streamlined regulatory structure that is still evolving. Unfortunately, with the exception of a limited number of CNI grants, HUD has channeled all public housing redevelopment projects through RAD, essentially shutting down all non-RAD applications for demolition/disposition through the Special Applications Center. Though the statute states that HUD *shall* approve a demo/dispo application if the public housing authority (PHA) makes certain certifications, and provides only narrow circumstances for HUD to disapprove an application, HUD has taken steps that are inconsistent with Congressional intent, placing additional burdens on PHAs to justify their choices beyond what the statute requires, and leaving PHAs with fewer tools to improve their affordable housing stock.

HUD has imposed a narrow and restrictive standard on determinations of obsolescence, limiting a PHA's "modification" budget to very narrow categories over short periods of time to determine if there is a "reasonable" and "cost effective" means of "returning" the project to "useful life." These restrictions have the effect of essentially prohibiting demolition of otherwise hopelessly obsolete projects that are unsuitable for occupancy and which cannot be made suitable by current standards within these unreasonable guidelines.

Without the ability to demolish, or convey a property to an ownership structure that permits LIHTC investment, PHAs must direct scarce capital dollars to making marginal improvements to buildings that should really come down or that would require prohibitively expensive and unwise rehabilitation.

Just as troubling with regard to disposition, HUD has concluded that irrespective of the magnitude of the local funding shortfall or the scope of the repair needs, there are, in every case and in every location in the country, adequate "alternative resources" available to offset any shortfall in public housing funding. This defies both experience and logic. It also means that PHAs cannot access the "alternative resources" for public housing redevelopment that *are* available through the LIHTC, as they cannot convey the public housing property to the tax credit entity—which allows the tax credit investors to invest their equity—without disposing of the property.

Further, HUD has said that if a disposition application did not meet the overly restrictive obsolescence standard, then the PHA would be required to replace public housing units on a one-for-one basis, a policy Congress repealed in 1998.

At the same time that HUD is increasing the difficulty of obtaining demolition and disposition approval, in effect forcing PHAs to spend scarce resources on maintaining obsolete properties, it is promulgating fair housing rules that require housing authorities to assess the role project siting and

occupancy play in sustaining , racially and ethnically concentrated areas of poverty. It is unclear why PHAs should be forced to maintain properties that HUD believes to be significant contributors to the problems of segregation and racially and ethnically concentrated areas of poverty.

Increasing restrictions on the use of project-based vouchers also make it harder to work with private developers to include subsidized units in new development or redevelopment projects. For example, HUD's recent Final Rule on the Project-Based Voucher program explicitly prohibits construction or rehabilitation activity between the submission of a proposal for project-based vouchers (PBVs) and the execution of the Agreement to Enter into Housing Assistance Payments Contract (AHAP). Additionally, the final rule prohibits executing an AHAP after the commencement of construction or rehabilitation. This means that no work can start on a project-based voucher project until the contract is in place and subsidy layering review has been completed. This can increase costs for partners in the project, and the potential for significant delays before development even begins could discourage private sector partners from participating.

A recent independent study by Abt Associates entitled "Innovation in the Moving to Work Demonstration" noted that "(g)iven the sizable backlog of capital needs in public housing – the most recent study placed the national backlog at \$26 billion as of 2010 – it is not surprising that many MTW agencies have sought to use MTW funds to invest in the modernization of older public housing and the revitalization of distressed public housing developments in need of a more comprehensive overhaul. MTW agencies report a wide range of activities that fall within this category, including the dedication of more funds to public housing modernization activities than might have been possible under standard HUD policies, revitalization efforts somewhat similar to those conducted under HOPE VI (though without the benefit of large HOPE VI grants), and policy changes designed to streamline and reduce the costs of day-to-day modernization activities."

According to Abt, "(a)mong other roles, MTW authority has allowed AHA (Atlanta Housing Authority) to streamline its procedures to keep pace with its private sector partners for whom lengthy procedures would raise costs and complicate their ability to participate in these redevelopment activities. For example, instead of the large binder of documents required by most PHAs as a rental term sheet to move forward with a development project, AHA does a 'Pre-Closing Memo,' which allows the agency to present information in a streamlined fashion. Also, AHA has a grant manager who completes a streamlined review 30 days before closing, instead of an investment committee that involves a three to six month review process. AHA has also streamlined the "demo/dispo" procedures needed when changing the status of a public housing development.

"King County Housing Authority (KCHA) has used its MTW authority in multiple ways to improve the quality of its public housing. KCHA has used single fund flexibility to transfer funds from its voucher program, which is experiencing lower than projected per-unit costs, to its public housing program to offset the effects of HUD's proration of public housing funding. Single-fund flexibility has allowed KCHA to be more creative on the development side, leading to increased production of affordable housing. For example, at one property, KCHA took the 10-year replacement factor funding from the demolition of public housing as part of HOPE VI and paired it with capital and operating funding and used the combined funds as security for a bond issue. KCHA staff say that it is possible they could have gotten HUD approval for this activity through the traditional regulatory

process, but it would have been very difficult. This innovative financing allowed them to essentially do a HOPE VI-style redevelopment without a HOPE VI grant.”

CLPHA believes that it is critically important for Congress to clarify its intent to remove the barriers HUD has erected to greater private investment in affordable housing. Furthermore, a substantial expansion of MTW would allow PHAs to develop local strategies to incentivize private investment in affordable housing. CLPHA members stand willing to work with Congress to address these issues.

Thank you for the opportunity to submit our views for the record, and we ask that you give them your full consideration.