



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
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Secretary of U.S. Department of Housing and Urban Development (HUD)
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Agencies
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Thank you, Chairman Latham and Ranking Member Pastor, for this opportunity to discuss the Department of Housing and Urban Development’s Public Housing programs and some of the innovative proposals contained in our FY 2015 Budget.

In the areas of public housing and innovation, the fiscal year 2015 HUD Budget:

Provides Ladders of Opportunity for Anybody Willing to Work Hard and Play by the Rules. The Budget provides \$120 million for Choice Neighborhoods to continue to transform neighborhoods of concentrated poverty into opportunity-rich, mixed-income neighborhoods. This funding level, which is augmented by an additional \$280 million in the Opportunity, Growth and Security Initiative, will be used to revitalize HUD-assisted housing and surrounding neighborhoods through partnerships between local governments, housing authorities, nonprofits, and for-profit developers. Preference for these funds will be given to designated Promise Zones—high-poverty communities where the Federal Government is working with local leadership to invest and engage more intensely to create jobs, leverage private investment, increase economic activity, reduce violence and expand educational opportunities.

Protects the Vulnerable Recipients of HUD Rental Assistance and Makes Progress on the Federal Strategic Plan to End Homelessness. The Budget includes \$20 billion for the Housing Choice Voucher program to help more than 2.2 million low-income families afford decent housing in neighborhoods of their choice. This funding level supports all existing vouchers and fully restores the sequestration funding cuts that the 2014 appropriations mostly reversed. In addition, the Budget provides 40,000 special purpose vouchers, including 10,000 new vouchers targeted to homeless veterans. The Budget also includes \$9.7 billion for the Project-Based Rental Assistance program to maintain affordable rental housing for 1.2 million families, and provides \$6.5 billion in operating and capital subsidies to preserve affordable public housing for an additional 1.1 million families.

Puts HUD-subsidized Public and Assisted Housing on A Financially Sustainable Path. This Budget also recognizes that we can no longer tolerate a federally-supported rental housing system that is “separate and unequal” – one which expects public housing authorities (PHAs) to house over 1 million families in public housing, subjecting them to overly burdensome regulation while denying them access to private capital available to virtually every other form of rental housing. To bring our rental housing system into the 21st century and continue to address the \$26 billion in public housing capital needs, this Budget includes proposals that would facilitate the conversion and preservation of additional Public Housing and other HUD-assisted properties under the Rental Assistance Demonstration (RAD). At the same time, the Budget provides \$10 million for a targeted expansion of RAD to Public Housing properties in high-poverty neighborhoods, including designated Promise Zones, where the Administration is also supporting comprehensive revitalization efforts.

Improves the Way Federal Dollars are Spent and Builds Evidence of What Works. The Budget also provides \$25 million for the evidence-based Jobs-Plus program, a proven model for increasing public housing residents' employment and earnings. Through Jobs-Plus, public housing residents will receive on-site employment and training services, financial incentives that encourage work and "neighbor-to-neighbor" information-sharing about job openings, training, and other employment-related opportunities. The Opportunity, Growth, and Security Initiative includes an additional \$125 million for Jobs Plus, which together with the base funds could assist up to 50,000 participants.

Rental Assistance Programs

In an era when more than one-third of all American families rent their homes and over 8.5 million unassisted families with very low incomes spend more than 50 percent of their income on rent and/or live in substandard housing, it remains more important than ever to provide a sufficient supply of affordable rental homes for low-income families – particularly since, in many communities affordable rental housing does not exist without public support. HUD's 2015 Budget maintains HUD's core commitments to providing rental assistance to some of our country's most vulnerable households as well as distributing housing, infrastructure, and economic development funding to states and communities to address their unique needs. Overall, 84 percent of HUD's total 2015 budget authority requested will provide rental assistance to over 5.4 million residents of HUD-subsidized housing, including public housing and HUD grants to homeless assistance programs.

Detailed data shows how vulnerable these families are to the economic downturn. In HUD's core rental assistance programs, including Tenant Based Rental Assistance (TBRA), Public Housing and Project Based Rental Assistance (PBRA): 75% of families are extremely low-income (below 30 percent of area median income) and an additional 20 percent are very low-income (below 50 percent of area median income). The devastating effect of the tough economic environment on the housing circumstances of poor Americans was underscored when HUD released its *Worst Case Housing Needs* study results. HUD defines worst case needs as: renters with very low incomes who do not receive government housing assistance and who either pay more than half their income for rent, live in severely inadequate conditions, or both. The report showed an increase of 43.5 percent in worst case needs renters between 2007 and 2011. This is the largest increase in worst case housing needs over a four year period in the quarter-century history of the survey. The need for HUD investments in this area is clear.

Preserving Affordable Housing Opportunities in HUD's Largest Programs

This Budget provides \$20 billion for HUD's Section 8 TBRA program, which is the nation's largest and preeminent rental assistance program for low-income families. For over 35 years it has served as a cost-effective means for delivering safe and affordable housing in the private market. This 2015 funding level is expected to assist approximately 2.2 million families and support new incremental vouchers for homeless veterans. It is important to note the effect that sequestration had on this program and the lengths to which HUD and PHAs went to preserve units for families currently receiving assistance. By using both program reserves and contingency funding, HUD did not terminate any family's assistance due to sequestration. No family housed by the program was evicted from that housing. However, approximately 74,000 families who could have moved from Housing Choice Voucher waiting lists and into housing remain on those waiting lists.

The Budget also provides a total of \$6.5 billion to operate public housing and modernize its aging physical assets through the Public Housing Operating (\$4.6 billion) and Capital (\$1.9 billion) funds, a critical investment that will help over 1.1 million extremely low- to low-income households obtain or retain housing. Similarly, through a \$9.7 billion request in funding for the PBRA program, the Department will provide rental assistance funding to privately-owned multifamily rental housing projects to serve over 1.2 million families nationwide.

Creating Stability in the Project-Based Rental Assistance Program

The Budget request of \$9.7 billion for the PBRA program will allow HUD to shift to a calendar year funding approach for renewal contracts in fiscal year 2015, which is consistent with current practice in the Housing Choice Voucher and Public Housing programs, and should result in more predictable funding cycles in future years. In FY

2015, for all multiyear contracts in the middle of their contract terms, HUD would place funding on contracts as they come up sufficient to carry them through the end of calendar year 2015. For contracts whose term expires during fiscal year 2015 and a new contract is executed, HUD would place 12 months of funding on the contract at the time of execution (however, the subsequent funding event would transition those contracts to the calendar year funding cycle). HUD does not expect the transition to a calendar year funding approach to have significant impact on stakeholders, investors, or lenders because there will be no change in underlying contract terms or duration. Rather, the Department will only shift the timing for funding of the contract, similar to past practice during periods covered by Continuing Resolution and during fiscal year 2013, post-sequestration, which was effectuated due to implementation of new business processes and information technology systems. HUD believes that 12-month calendar year funding will increase the predictability of funding under the program, allowing owners to continue leveraging private debt and equity on advantageous terms. In addition, this approach will assure funding is in place on all multi-year contract renewals during the critical first quarter of the following year—a period when funding uncertainty can be high.

Reducing Administrative Burdens and Increasing Efficiency

This Budget recognizes the need to simplify, align, and reform programs to reduce administrative burdens and increase efficiency across programs by:

- *Enabling PHAs to Combine Operating and Capital Funds.*
To both simplify the program and reduce the administrative burden on State and local public housing authorities, the Budget provides all PHAs with full flexibility to use their operating and capital funds for any eligible capital or operating expense.
- *Providing Flexibility for PHAs to Improve Supportive Services for Assisted Households.*
The Budget proposes streamlining and flexibility measures to help PHAs improve supportive services for assisted families. The Family Self-Sufficiency (FSS) program will be consolidated and aligned to enable PHAs to more uniformly serve both TBRA and Public Housing residents. This program, which the Budget also expands to residents of PBRA housing, aims to connect residents to resources and services to find and retain jobs that lead to economic independence and self-sufficiency.

Rebuilding our Nation's Affordable Housing Stock

Over the last 75 years, the Federal Government has invested billions of dollars in the development and maintenance of public and multifamily housing, which serve as crucial resources for some of our country's most vulnerable families. Despite this sizable Federal investment and the great demand for deeply affordable rental housing, we continue to see a decline in the number of available affordable housing units. Unlike other forms of assisted housing that serve very similar populations, the public housing stock is nearly fully reliant on federal appropriations from the Capital Fund to make capital repairs. Funding and regulatory constraints have impaired the ability for these local and state entities to keep up with needed life-cycle improvements. The most recent capital needs study of the public housing stock, completed in 2010, estimated the backlog of unmet need at approximately \$26 billion, or \$23,365 per unit. Funding for the Capital Fund has been insufficient to meaningfully reduce public housing's backlog of repair and replacement needs or even meet the estimated \$3 billion in annual accrual needs. Under the strain of this backlog, and without financing tools commonly available to other forms of affordable housing, the public housing inventory has lost an average of 10,000 units annually through demolitions and dispositions.

- *Rental Assistance Demonstration*
In addition to the public housing stock, the RAD program targets certain "at-risk" HUD legacy programs. Prior to RAD, units assisted under Section 8 Moderate Rehabilitation (MR) were limited to short-term renewals and constrained rent levels that inhibit the recapitalization of the properties, and units assisted under Rent Supplement (RS) and Rental Assistance Program (RAP) had no ability to retain project-based assistance beyond the current contract term. As a result, as their contracts expired, these projects would no longer be available as affordable housing assets.

Conversion to long-term Section 8 rental assistance, as permitted under RAD, is essential to preserving these scarce affordable housing assets and protecting the investment of taxpayer dollars these programs represent. Long-term Section 8 rental assistance allows for state and local entities to leverage sources of private and public capital to rehabilitate their properties. While the Department expects and continues to process Public Housing conversions of assistance without additional subsidy, HUD requests \$10 million in 2015 for the incremental subsidy costs of converting assistance under RAD for very limited purposes. Such funding will be targeted *only* to public housing projects that are: 1) not feasible to convert at current funding levels, and 2) located in high-poverty neighborhoods, including designated Promise Zones, where the Administration is supporting comprehensive revitalization efforts. The Department estimates that the \$10 million in incremental subsidies will support the conversion and redevelopment of approximately 5,000 public housing units that would not otherwise be feasible to convert and sufficiently stabilize over the long term without incremental subsidies, while helping to increase private investment in the targeted projects.

In addition to the funding request, the proposed legislative changes to RAD are designed to allow for maximum participation by those PHAs and private owners whose current funding levels are sufficient for conversion. This includes, for example, elimination of the 60,000 unit cap, which will allow for a greater portion of the Public Housing stock that can convert at no cost to the federal government to participate in the demonstration.

Transforming Neighborhoods of Poverty

The President has made it clear that we cannot create an economy built from the middle class out if: a fifth of America's children live in poverty, at a cost of \$500 billion per year—fully 4% of GDP—due to reduced skills development and economic productivity, increased later life crime, and poor health; a growing population lives with the problems of concentrated neighborhood poverty—high unemployment rates, rampant crime, health disparities, inadequate early care and education, struggling schools, and disinvestment—all of which isolate them from the global economy.

That's why HUD's fiscal year 2015 Budget provides \$120 million for Choice Neighborhoods to continue transformative investments in high-poverty neighborhoods where distressed HUD-assisted public and privately owned housing is located. Choice Neighborhoods—along with RAD—is an essential element of the President's Promise Zones initiative to create ladders of opportunity for Americans living in our most distressed neighborhoods. This initiative is designed to support revitalization in some of America's highest-poverty communities by creating jobs, attracting private investment, increasing economic activity, expanding educational opportunity, and reducing violent crime. Other key rungs on the Ladders of Opportunity include raising the minimum wage, increasing access to high-quality preschool, promoting fatherhood and marriage, and revitalizing America's high schools.

The President announced the first five Promise Zones in January 2014 and will designate up to an additional 15 Zones in the year ahead. Communities compete to earn a Promise Zone designation by identifying a set of positive outcomes, developing a strategy, encouraging private investment and realigning federal, state, and local resources to support achievement of those outcomes. The Promise Zone designation process ensures rural and Native American representation. Promise Zones will receive tax incentives, if approved, to stimulate hiring and business investment along with intensive federal support and technical assistance aimed at breaking down regulatory barriers and using Federal funds available to them at the local level more effectively. Applicants from Promise Zones will also receive points for competitive federal grants that will increase the odds of qualifying for support and assistance to help them achieve their goals.

Promise Zones are aligning the work of multiple federal programs in communities that have both substantial needs and a strong plan to address them. The Promise Zones initiative builds on the lessons learned from existing place-based programs like the Department of Education's Promise Neighborhoods and the Department of Justice's Byrne Criminal Justice Innovation program, both of which receive substantial increases in the Budget. Other federal agencies that will be aligning their work with that of local Promise Zone partners include the Departments of Commerce, Health and Human Services, and Agriculture.

The Choice Neighborhoods initiative is a central element of the Administration's inter-agency, place-based strategy to support local communities in developing the tools they need to revitalize neighborhoods of concentrated poverty into neighborhoods of opportunity. The Department's administration of the first rounds of funding for Choice Neighborhoods grants exemplify how our practices generate effective partnerships with local housing and community development efforts. In the past, many federal grant programs followed a rigid, top-down, 'one-size fits all' approach that dictated what local policymakers could and could not do rather than listening to them and providing the tools they needed to meet local needs. Having served in local government myself, I am committed to a collaborative approach responsive to local needs – and believe the results thus far demonstrate that we are making good on that commitment.

Conclusion

Chairman Latham, the FY 2015 Budget reflects the Administration's innovative programs and proposals for the nation's public housing programs. We look forward to discussing these items with Congress as you work through the appropriations process and look forward to your questions.