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Testimony of Jon Gutzmann

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before the

House Government Reform Subcommittee on Federalism  
and the Census concerning

*“Poverty, Public Housing and the CRA: Have Housing and Community  
Investment Incentives Helped Public Housing Families Achieve the  
American Dream?”*

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Thank you, Chairman Turner and subcommittee members, for holding this important hearing. My name is Jon Gutzmann. I am the President of the Public Housing Authorities Executive Directors Association, a position I have held since 2004. PHADA is a membership organization that currently serves almost 1,900 Executive Directors and chief executives of housing authorities throughout the United States. PHADA has served as an advocate for these agencies for over 25 years. I have also served as Executive Director of the Saint Paul Public Housing Agency for the last 18 years. Previously, I was the Director of Public Housing for the Minneapolis Public Housing Authority for 7 years. I am testifying on behalf of PHADA, its 1,900 members, the Saint Paul PHA, the 20,000 low-income households we serve, and the 1.2 million households in public housing apartment complexes nationally. I speak as a provider of affordable housing, as an advocate who has worked directly with and for the residents of public housing and participants in the Housing Choice Voucher program for the past 25 years, and as a leader of the premier national association representing the interests of housing authorities.

The agency I lead owns and operates 4,300 public housing units and administer 4,000 Housing Choice Vouchers, providing safe, affordable, quality housing to over 20,000 people. We have been rated a high performer under the Public Housing Assessment System for 14 consecutive years and a high performer under the Section Eight Management Assessment Program for four years. Our scores are often 100% for each program. We carefully screen applicants for admission into public housing, collect 99.5% of all rent charged, perform 35,000 work orders per year in an average of 2 days per work order, have been at 99% occupied for seven consecutive years in public housing and full utilization of Section 8 vouchers for four years. We have had no financial audit findings for nine consecutive years, and we fully expend capital funds over one year ahead of HUD's requirements. I point to these accomplishments out of pride of course, but also to say that they are representative of most housing authorities in the nation.

#### Whom We Serve

The 75-year-old low-income public housing program offers shelter for some 1.2 million American households that include approximately 2.4 million people. Although many still hold that public housing residents are minority single women with several children who receive welfare, don't work, and live out their lives in public housing, the facts should disabuse us of this stereotype. Almost 1 in 3 public housing households include workers and 55 percent receive pension or disability income. Only 1 of 5 public housing households receives any form of welfare. 49 percent of these households are either elderly or disabled, and a woman heads only 1 of 3 households with children. Over half of public housing households are white, 46 percent are African American, and 22 percent are Hispanic or Latino. Fewer than half of these residents have lived in Public housing longer than 5 years, and only 13 percent have lived in public housing for more than 20 years. These households do not conform to the stereotype. However, they are overwhelmingly poor. More than 60 percent of public housing households have incomes below 30 percent of area median income (AMI), and only 9 percent have incomes higher than 50 percent of the median income. The average annual income of public housing households is only \$11,437. This presents special challenges and opportunities, both for self-sufficiency programs and efforts to deconcentrate poverty. Despite claims from some advocacy organizations, HAs have not chosen to house more residents that are affluent since targeting provisions of QHWA took effect.

This shelter for mostly very poor, mostly white, mostly elderly and disabled households, the vast majority of whom earn a living or receive a pension is currently under severe distress. Sources of this distress include shrinking federal financial support from the Congress, burdensome micromanagement, and administrative oversight by HUD, and resistance to real deregulation and reform by some advocacy organizations and policy makers. In combination, these influences place the public housing program and local housing authorities in serious jeopardy.

### The Context for the Foreseeable Future

Although appropriations may not be a matter subject to this subcommittee's jurisdiction, funding provides the context in which discussions of potential policy reforms must take place. An obvious source of distress is the state of proposed appropriations that will support the program in the next federal fiscal year and thereafter. Sources of federal support for public housing have included the Operating Fund, the Capital Fund, the Public Housing Drug Elimination Program (PHDEP) and HOPE VI. Since 2000, funding for these programs has declined by \$1.4 billion in the aggregate, including the elimination of PHDEP funding. In the coming fiscal year, HUD has proposed and the House Appropriations Committee has endorsed eliminating HOPE VI funding, reducing the Capital Fund by \$250 million, and funding the Operating Fund at only 78 percent of subsidy eligibility. The Office of Management and Budget may have slated public housing funding for an additional \$1 billion reduction for the 2008 fiscal year. Finally, while appropriations proposals only support 78 percent of the national subsidy eligibility, HUD's implementation of a new Operating Fund formula will reduce funding for some so-called stop-loss agencies' subsidy eligibility even further. One PHADA member faces a 45 percent drop in formula subsidy eligibility. The combination of the formula change and the appropriations proration will impose a subsidy reduction on that agency of 30 percent in 2007 and almost 50 percent by 2010.

Along with this level of fiscal distress, authorities face unprecedented levels of micromanagement and detailed oversight from the Department of Housing and Urban Development. HUD is demanding implementation of a highly prescriptive hybrid version of asset management beginning between October 2006 and July 2007. The department has yet to publish a complete set of standards for compliance with this hybrid asset management. Ignoring recommendations of HUD's Inspector General, HAs must decentralize their procurement operations. They must also dismantle any central material warehousing operations, and reorganize supervision of routine and specialized maintenance, housing inspections, eligibility and waiting list management. HUD is insisting that HAs move away from GAAP accounting and implement a new but undefined HUD mandated chart of accounts. To its ongoing Rental Integrity Monitoring (RIM) reviews, the department has added a new annual Comprehensive Review protocol covering those agencies using 80 percent of HUD's public housing and voucher funding along with a random sample of other smaller HAs. Some HAs have reported visits by 4 teams of HUD reviewers since January 2006 covering areas such as RIM reviews, Comprehensive Reviews, Fair Housing and Equal Opportunity reviews and IG reviews.

Finally, advocacy organizations and liberal policy makers have criticized initiatives aimed at reforming elements of federal assisted housing policy that promise a more equitable, responsible

and responsive program. Some proposals currently on the agenda would reduce rent revenue for public housing by changing the basis for calculating rent while housing authorities are facing unprecedented reductions in federal support. Meanwhile, material and construction costs are increasing and utility and fuel costs are rising dramatically. In the face of this looming crisis, until very recently organizations that advocated with PHADA and others very effectively for the Housing Choice Voucher program have been strangely silent. Somehow, the massive outpouring of advocacy on behalf of Housing Choice Voucher holders in the past three years has translated to modest and brief advocacy for the poor who reside in public housing apartments.

In response to these stressors, HAs report taking a number of different steps designed to improve their survivability. My own housing authority has laid off significant proportions of staff, weakening our capacity to serve our residents and program participants responsively and with dignity and respect. We are now considering delaying the implementation of policies that would tend to raise our operating costs and our annual deficits. Agencies have reported survival tactics such as the creation of separate housing authorities to carry out development initiatives, insulating them from their public housing operations which are increasingly threatened by financial uncertainty and instability. The press has reported that the Salt Lake City Housing Authority has initiated steps to dispose of its approximately 600 public housing units, converting the assistance to tenant based Housing Choice Vouchers. The agency anticipates that proceeds from the disposition will enable it to produce over 1,200 affordable housing units, but it is not clear whether that housing would be available to households with incomes as low as those currently residing in public housing.

### PHADA's Suggested Solutions

For over 15 years, PHADA has suggested national policy alternatives that preserve public housing assets and improve both the quality of that stock, its operation, and the ways the program serves its residents. These alternatives could also help HAs weather their current difficulties. The alternatives 1) deregulate the public housing program and offer local agencies the flexibility promised in QHWRA, 2) support and maintain communities within and surrounding public housing apartment complexes, and 3) encourage appropriate levels of self-sufficiency for residents and incentivize employment.

#### Moving to Work

PHADA endorses the Moving to Work demonstration and advocates that the demonstration become a permanent policy alternative and that the number of participating agencies be increased. The recently introduced Moving to Work Charter Program Act of 2006 (S. 3508) would make the demonstration permanent, facilitate development of MTW Charter Contracts, and expand the number of participants from the current 27 to 250 agencies diverse in their size and their location. Another much less attractive alternative contained in the Section 8 Voucher Reform Act of 2006 (H.R. 5443) would only add 13 agencies and would restrict MTW agreements to 3 year terms.

The experiences of agencies as diverse as Cambridge, Massachusetts, Keene, New Hampshire, Portland, Oregon, and Tulare County, California, demonstrate the potential of the MTW

demonstration. At the Keene Housing Authority, participants in the Resident Self Reliance Program reporting no income declined by 50% from 1999 to 2000 from 6 families to 3 families, and participants with incomes in excess of \$30,000 grew 25 times from 2 families to 51 families. According to ABT Associates' 2005 annual monitoring report, at the Housing Authority of Tulare County:

MTW program participants have experienced much higher increases in income than participants in HATC's income-based programs.

and:

HATC has strong anecdotal evidence from housing inspectors, landlords, and eligibility clerks that MTW voucher participants are leasing units in a wider range of neighborhoods than their income-based counterparts.

With these documented outcomes, the claim by some that, "there is no data," seems disingenuous. Others assert that this information is only anecdotal. The anecdote of the Keene Housing Authority's MTW success includes the stories of hundreds of public housing residents and Housing Choice Voucher participants. The anecdote of the Housing Authority of Tulare County's MTW successes includes the stories of over 3,400 program participants. Altogether, the anecdotes concerning residents and participants at MTW housing authorities involve tens of thousands of low-income households. The flexibility of MTW offers participating housing authorities the tools they need to address local and federal policy preferences, improve their ability to offer affordable, deeply assisted housing opportunities to families, the disabled and elders, and offer effective incentives for increasing earned income.

The Urban Institute developed an assessment of MTW's national impacts and implications under contract with HUD's Office of Policy Development and Research. While the Urban Institute's assessment of MTW pointed out limitations on potential conclusions, it confirmed that:

Although rent contributions (and housing cost burdens) rose for some residents, there is no evidence of severe hardship or increased evictions from public and assisted housing.

In its conclusion, the report suggested that:

The MTW evidence available to this point suggests that further deregulation of local HAs may, indeed, yield benefits in terms of program design and implementation innovations ...

The MTW Charter Program Act of 2006 provides both the expansion and the oversight called for in the Urban Institute's assessment.

Despite reports from MTW agencies concerning outcomes of their policy changes, annual reports, case studies, and a national assessment prepared by research organizations under contract with HUD, and annual reports to HUD from MTW agencies to the contrary, some advocacy organizations continue to claim that under MTW HAs will evict extremely poor people, raise rents to unreasonable levels and admit only those households with incomes just below the eligibility limits of 80 percent of Area Median Income. The facts of the MTW program and the performance of HAs more generally since passage and implementation of QHWRA and its targeting provisions utterly contradict those claims.

## Rent Reform

Recently, in response to a report on the accuracy of rent calculations in assisted housing programs, HUD developed the Rental Housing Income Integrity Program (RHIIP), a three-pronged initiative designed to improve the accuracy of rent setting. The department has established Rental Income Monitoring (RIM) reviews to oversee the accuracy of program sponsors' income and rent calculation, and it has established an Enterprise Income Verification system (EIV) that makes Social Security Administration benefit data and Department of Health and Human Services wage data available to HAs as they determine household income for their programs. Unfortunately, the department has not implemented the third element in RHIIP, simplification of the rent setting protocols in deeply assisted housing programs. PHADA has been advocating reform of assisted housing rent protocols for over 15 years, and believes that reforming the rent system is fundamental to improving deeply assisted housing.

In 2004, PHADA published, Rent Reform: Fair and Simple Solutions. There we argued the case made by Mr. Curt Hiebert in testifying before this subcommittee that the current system for setting rents in public housing, "encourages deceit confuses applicants, tenants, housing authority staffs, policy makers, and the general public. There are significantly different rents for virtually identical housing, the system punishes work, and the system, not surprisingly, results in errors." To that, I would only add that the current system of income and rent determination, referred to by a PHADA Trustee as "snoopervision," represents a deep and ongoing intrusion by HAs and by HUD into the personal affairs of each of the 2.4 million public housing residents and every public housing applicant. The processes required for income and rent calculations compromise public housing residents' and applicants' privacy by disclosing their status as recipients or applicants of federal housing assistance to their employers, their schools, their medical care providers, their childcare providers, their banks, former spouses, and former partners among others. Staffs of the 3,200 HAs operating public housing collect and control this personal information and submit it to HUD. The uncertain security of data maintained by private sector data collection organizations such as ChoicePoint, and most recently by the Department of Defense and the Department of Veterans Affairs highlights the risks of exposure for public housing residents and applicants due to our snoopervising data collection and transmission. In addition to these privacy concerns, HUD's income verification and rent calculation requirements raise administrative costs for every housing agency. Last year my staff performed over 4,200 annual income reexaminations for public housing households, and almost 3,300 interim reexaminations for households whose income or other circumstances changed during the year.

Our experiences in St. Paul reinforce the unanticipated, counterintuitive outcomes of the existing rent setting protocols. For example, one single head of house went to work for approximately \$10 per hour. My staff understands that this resident quit her job because neighbors said the rent would go up, and pressed the family to quit. Staff could not convince the resident that her rent would not increase unreasonably. In another case, after completing a training program and becoming employed for \$15 per hour, a head of one household paid our \$25 minimum rent for 12 months, and then paid a rent of \$390 based on 50% of earned income for another 12 months. After a promotion raised wages to \$21 per hour and the earned income disregard expired, this household's rent rose by 233 percent to \$1,068. The household was unable to adjust to this dramatic rent increase, failed to pay rent on time and we evicted the family from public housing for non-payment. These outcomes were not the ones we prefer, but are the outcomes produced by the existing rent setting protocols.

Solutions for these deficiencies lie in rethinking the fundamentals, not in tweaking marginal details in the current rent policies. PHADA has endorsed two potential alternatives that we believe would resolve many of the current policy's difficulties. The first is a tiered rent system that resembles the rent protocols of the Low Income Housing Tax Credit program. The second is a radically simplified income based system that uses historical income information, bases rent on gross income, and uses rent-to-income ratios that compensate for differential federal tax treatments of different kinds of income. Either of the alternatives described in PHADA's publication would go a long way toward correcting the deficiencies and dysfunctions of the current rent policy, and PHADA believes that these systems would also achieve three important policy goals. They would encourage earned income; they would maintain housing affordability for extremely low-income households; and they would achieve real rent simplification.

## HOPE VI

HOPE VI is currently the only federally funded initiative that can develop or redevelop public housing apartment complexes and their surrounding neighborhoods. The program offers opportunities to deconcentrate very poor households by offering existing public housing residents alternative assisted housing opportunities and by recapitalizing and repositioning public housing apartment complexes as mixed income communities in revitalized mixed income neighborhoods. PHADA believes that Congress must reauthorize and fully fund HOPE VI to permit the continuing recapitalization and reinvention of the aging public housing stock. Through efforts like HOPE VI, public housing can contribute to the stability and the improvement of local communities and open attractive housing options to extremely low-income households that are otherwise not available to them. Studies sponsored by HUD have documented the decades-long \$20 billion disinvestment in public housing and the ongoing requirement for reinvestment and recapitalization of that asset. Housing authorities and the federal government owe a duty to the 1.2 million public housing households as well as the much larger number of households that live in surrounding neighborhoods to maintain that housing as a neighborhood anchor, to encourage the growth of mixed income resident populations, and to offer real opportunities for extremely low income households to live in less impoverished neighborhoods of their choosing.

One element in public housing repositioning encouraged by the HOPE VI program that has been very useful to housing authorities is its emphasis on the participation of the private sector in these projects. The use of mixed financing packages, the participation of private developers as contractors or partners, and the participation of the banking industry in financing HOPE VI projects has helped many agencies establish broader business relationships with private sector organizations. These new relationships have contributed to broadening the roles assumed by authorities such as Atlanta, Portland, Vancouver, and Philadelphia in developing affordable housing as well as deeply subsidized housing. Federal policies embodied in the Community Reinvestment Act have provided the banking sector with incentives to take on such projects that may impose higher levels of risk or offer lower returns on investment than would otherwise be attractive. In addition to policies such as the CRA, however, lending institutions must see that projects have stable and robust revenue streams similar to that enjoyed in the Section 8 Project Based program. The adhesive, illusory public housing Annual Contributions Contract (ACC) fails to provide any assurance at all that the government will continue, or even begin, to fulfill its financial obligations to public housing apartment complexes. Not even the CRA will overcome perceptions of risk and funding instability introduced to the public housing program in the past 6 years.

#### Other Initiatives

MTW, rent reform and HOPE VI represent initiatives that PHADA has historically supported. However, other approaches can also contribute to the survival of public housing and permit it to thrive. Two bills currently under consideration would help alleviate some administrative burden faced by small housing authorities. The Small Public Housing Authority Act (H.R. 3422) would remove some requirements for annual plan development and submission for housing authorities with fewer than 250 public housing apartments and Housing Choice Vouchers. A more attractive alternative introduced by Senator Sununu, the Small Public Housing Authority Paperwork Reduction Act of 2006, (S. 2707) would remove such requirements for agencies operating 500 or fewer public housing apartments without regard to the size of their Housing Choice Voucher program. PHADA supports Senator Sununu's version of this deregulation legislation, believing it offers real relief to more than a small minority of HAs.

The Jobs Plus initiative in which the St. Paul Housing Agency participated permitted my agency to see significant changes in the sources and amounts of income among members of 357 participating public housing households. The program was costly, but it demonstrated that real incentives and support services can make significant improvements in household self-sufficiency. The proportion of households with earnings rose from 16 percent to 51 percent during the program's 7 years, and the wages of households with earnings almost doubled to over \$24,000. 41 participating households became homeowners during the program. The Jobs-Plus model requires both funding and flexibility to create rent incentives, as well as the development of local partnerships and the agency's commitment.

PHADA's sister organization, the National Association of Housing and Redevelopment Officials (NAHRO) has just published a proposal that would permit 100 public housing apartment complexes around the country to convert to project based Section 8 contracts in a Pilot Program for Conversion of Public Housing to Project-Based Assistance. The proposal would demonstrate



that public housing apartment complexes can offer options for decent, affordable, deeply subsidized apartment complexes comparable to that provided by private sector developers when those properties are assured of adequate long term funding support under a contract that offers more than the lip service for funding contained in the public housing Annual Contributions Contract.

There are also incremental, less attractive alternatives under consideration by the Congress. The House Financial Services Committee has endorsed a bipartisan Section 8 Voucher Reform Act of 2006 (HR 5443). The bill would change the funding formula for tenant based Housing Choice Vouchers once again, would make minor adjustments to the rent and income calculation protocols, and would slightly increase the number of MTW agencies. Although most of these changes are attractive to HAs and conform to some elements of PHADA's ongoing policy suggestions, they fail to reach the root of problems faced by the public housing program. The bill also constrains rental income in both the public housing and the Housing Choice Voucher programs when it seems unlikely that the federal government will increase subsidy funds proportionally. Hence the bill may exacerbate the severe fiscal crisis facing public housing and may further reduce the numbers of people HAs will be able to serve with Housing Choice Vouchers. The MTW provisions of this bill fail to address program deficiencies identified by the Urban Institute, and it only increases the potential number of participating agencies by 13 to 40. Altogether, the bill fails to address the public housing programs need for reform adequately.

Last year, HUD developed a legislative proposal, the State and Local Housing Flexibility Act (SLHFA) that has been introduced in both the House (H.R. 1999) and the Senate (S. 771). The bills included 3 titles, one transforming the Housing Choice Voucher program to a block grant, a second making significant changes to the rent protocol in public housing much more in keeping with PHADA's recommendations, and a third that modestly expands the MTW program and makes the demonstration program permanent. However, PHADA and other industry and advocacy organizations have grave concerns about several provisions in the bills. So far, it does not appear that Congressional committees are interested in taking the bills up.

A final set of administrative initiatives under consideration by some HAs may offer some intermediate relief from the looming crisis. Agencies are expressing interest in requesting waivers of non-statutory requirements that approach MTW-like levels of deregulation. The Secretary of HUD can currently grant reasonable requests for waivers of such non-statutory requirements, he does so frequently, and HUD publishes semi-annual lists of waivers granted in the Federal Register. Whether the Secretary will grant broad requests for regulatory waivers remains to be seen. Agencies are also reporting the use of administrative discretion to delay implementing administrative practices that tend to raise operating costs or accelerate implementing administrative practices that tend to raise operating revenue. These can include such matters as revisions to utility allowances and revisions to schedules of charges and fees that public housing residents must pay for services as a lease condition. My PHA has also sold off some scattered site public housing homes, and we are considering more sales. The sale proceeds can be used to offset subsidy shortfalls for operating and capital costs, and we save the cost of making major improvements to those units, but obviously it reduces the PHA's housing stock and it re-concentrates poverty since most scattered site units are in lower poverty areas than are our family housing developments. Housing authorities generally do not find these practices

attractive, and they will not address all sources of distress in the public housing program. They do represent incremental contributions to the survival of the public housing program, however.

## Conclusion

The state of the public housing program in 2006 demands serious attention and real reform. The combination of fiscal distress, administrative micromanagement, and liberal opposition to fundamental change has placed the program and its multi-billion dollar asset in grave jeopardy. Unfortunately, the positive contributions public housing can make to the revitalization of poor neighborhoods will assume less salience as long as the survival of the program and of its sponsoring institutions is at risk, as it is today.

Initiatives that hold great promise for the improvement of the quality of life in neighborhoods, in public housing apartment complexes, and in individual households' lives cannot fulfill that promise in an environment where the program and housing authorities are strangling. Conservatives in both parties are rightly concerned with current fiscal circumstances. Moderates and liberals in both parties are rightly concerned with protecting the housing assistance currently used by 1.2 million households in public housing and 1.8 million households using Housing Choice Vouchers. The public housing program would be well served by the good faith attention of conservatives, moderates, liberals, and HUD to its long-term viability, its long-term growth, and its long-term promise of deep housing assistance through mixed income communities anchoring the revitalization of moderate-income neighborhoods. PHADA and others have put forward a series of policy proposals for over a decade that present opportunities for just that kind of attention, and I invite the participation of all of the industry groups, all of the advocacy organizations and every element within the policy making community to participate in improving, rather than dismantling, public housing.