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Los Angeles has a very large and growing need for housing assistance and affordable housing. The Housing Authority of the City of Los Angeles works to meet this need by providing a wide range of housing and housing assistance programs, and by integrating partners and services to promote family self-sufficiency into all its housing programs.

I. Introduction

There is a housing crisis in Los Angeles and much of California. The waitlist for our Section 8 program shows it. Over 70,000 households are on our Section 8 waitlist and an average of more than 4000 households register each month. The waitlist for our fully occupied public housing has grown more than 61% since October 1, 2001.

- In the "Out of Reach 2002" ranking of states with the least affordable housing, only Massachusetts outranked California, and six of the nation's top ten least affordable Metropolitan Statistical Areas (MSAs) were California communities.

- The California Association of Realtors (CAR) reports only 27% of households had the required $84,480 income to afford California's April 2003 $363,930 median priced home, based on a 30-year mortgage at 5.72% and a 20% down payment of $72,786. This down payment equals the price of a home in some parts of the nation. The affordability rate in Los Angeles was 29% of households.

- RealFacts reports and surveys indicate that the average rents in large complexes in Los Angeles County rose 36% from 1998 to $1299 by late December 2002.

- "Out of Reach 2002" reports it takes full time employment at $19.69 per hour to afford an apartment in Los Angeles that rents at HUD's two-bedroom 2003 Fair Market Rent set at the 40th percentile of the market. This translates to a household of three adults working full time at California's minimum wage of $6.75, or four full time workers at the federal minimum wage of $5.15.

- Per the 2000 Census, 7,985,489 families in California are below the federal poverty level, and 147,516 families, or 801,050 individuals in the City of Los Angeles are below the federal poverty level. It appears at least 611,457 households qualify for Section 8 in Los Angeles using a very conservative estimate based on 2000 census households with incomes below the Section 8 upper limit for a family of two. 169,738 households had incomes below $10,000.

- FMRs at the 40th percentile reduced housing search success of voucher holders to 39%. HUD only recently granted Los Angeles a waiver to set its Voucher Payment Standards at an FMR based on the 50th percentile of the market.

The growing gap between housing costs and family incomes explains why the 2000 Census found that 61% of Los Angeles households are renters. While we support, and have programs to promote, increased homeownership, market realities will limit the reach of such efforts. For renters, unless the nation is willing to significantly increase the minimum wage, or California drastically increases its housing supply, the need for housing assistance programs will continue. The housing crises in Los Angeles and other parts of the nation, makes it clear that more housing assistance is needed.

II. The Housing Authority: Effective Service Delivery Through a Network of Partners Based on Knowledge of Local Markets and Needs

Our experience since our founding in 1938 in a variety of regulatory, economic, and social policy environments taught us that healthy local communities come about through the collective attitudes and actions of constructively engaged and progress oriented local residents. The Housing Authority has consistently worked to achieve high levels of performance in its Section 8 and public housing programs, continually sought to increase the services we provide, and expanded and improved services and services access for our participants.

We began our Section 8 program in 1975, and quickly became a reliable local provider and a national leader in Section 8, with the nation's second largest program, and the greatest variety of sub-programs targeted to meet the special needs of targeted groups. Our current lease-up rate is 99%.

Our success in Section 8 is based on the positive relationships with local owners and owner associations that we have built since 1975 to increase the units available to participants, and to assist owners in improving their properties so that they met Section 8 Housing Quality Standards (HQS). We continued to apply for new allocations, and for new sub-programs targeting populations with special needs. We then built an effective network of local partner agencies and nonprofits to meet those needs.

The Housing Authority's vision and service to the City of Los Angeles is broad, and can be summarized in the following principles:

- Maintain high performance in core programs and activities
- Continually pursue new housing opportunities, allocations and programs
- Develop innovations and new initiatives locally
- Work for program improvements with industry groups, HUD & Congress
- Actively develop partners to meet the complex range of customer needs
- Work effectively with a large number of partner agencies and nonprofits
- Fully integrate self-sufficiency efforts with housing programs

The Housing Authority provides housing and housing assistance to more than 134,000 people in our public housing and Section 8 programs. We are deeply involved, and a leader, in coordinating local delivery of self-sufficiency, employment, education, youth and family services with affordable housing. We recognize housing with integrated services achieves greater success in permanently moving families to self-sufficiency.

The results in our public housing program have been a sharp reduction in the level of welfare dependence. In 1995, welfare was 41.7% of public housing family income, and only 34.1% came from jobs. By 2002, 55.9% of public housing family income came from employment, and only 19.7% was from welfare. The amount of resident income from wages more than doubled over eight years ending in 2002, from $21 million to $47.5 million. During the same period, income from welfare fell from $25.8 million to $16.8 million.

Because of the huge loss of Section 8 participants during the conversion of the Section 8 Certificate program to the Housing Choice Voucher program, looking at the same period for Section 8 participants does not yield a similarly reliable measure of change.

In 2002, the Section 8 program's Family Self-Sufficiency (FSS) Program had 2800 families enrolled; with a collective $3.9 million accumulated in FSS escrow savings accounts. Patricia Buzenes is an example of FSS success. Over five years, she moved from a household income of zero through job training with our partner, the United Auto Workers (UAW-LETC), to a $34,000 job as a bus driver for the City of Monrovia. She saved almost $10,000 in an FSS escrow savings account.

Chanda Peters, who we understand will give her own testimony to the Subcommittee, is another example of how housing assistance coupled with effective service delivery not only rescues families from current hardship, but also reverses falls into dependency. Ms Peters enrolled in FSS in 1995, successfully completed the program in 1997, and used her $14,000 in FSS escrow savings to purchase a home in 1998. Her three daughters are well along the road to their own self-sufficiency and economic success due to the family's commitment to academic achievement and completing college.

All levels of government and society share the goal of promoting healthy communities of better educated, and more self-sufficient people. Achieving this goal depends first on providing the stable foundation of the security of affordable housing, and then providing access to the broad range of services needed to meet the serious and diverse needs of disadvantaged households.

It takes local agencies that know their local markets, know how to work effectively with local owners, partners, and agencies, and know and understand the needs of local populations to effectively deliver the affordable housing and other services necessary to position disadvantage people to make the right choices. Families must be able to both move toward self-sufficiency, and insure their children have a solid foundation and good education so that they continue the family's economic progress. This has been the mission of the Housing Authority in its service to Los Angeles for more than a decade.

Participants in all of our programs are encouraged to participate in our Family Self-Sufficiency (FSS) program, our Welfare-to-Work (W-t-W) grant programs, our Workforce Investment Act (WIA) One-Stop WorkSource Center services, and other adult education and economic development programs.

Currently, our FSS program has assisted 165 families to graduate to self-sufficiency has 2,550 current participants, with 765 building for their future by contributing to an escrow earnings account. In 2002, we awarded $332,114 in such escrow savings to successful FSS participants. The funds were used toward purchasing homes, for higher education, to secure needed transportation, and toward establishing or improving businesses. Some of our partner agencies for the FSS program are: UAW-LETC; Los Angeles Family Housing; Community Career Development, Inc.; Lutheran Social Services of Southern California; MCS Rehabilitation, Inc.; San Fernando Valley Interfaith Council; and Community Centers, Inc.

The purpose of some subprograms determines the partners involved. Our long and constructive partnership with the Los Angeles County Department of Public Social Services (DPSS), in several shared efforts to promote employment, reduce welfare dependence, and encourage participation in CalWORKS, set the stage for our speedy success in fully utilizing all awarded W-t-W vouchers. In fact, we doubled the allocation for this effort by adding vouchers from our regular allocation.

We have also added a major new area of operations in 2003, to:

- Implement the new contract to be the Contract Administrator for HUD's Project-based Assistance properties in southern California awarded to our Los Angeles LOMOD (nonprofit) Corporation.

One of our nonprofit corporations, the Los Angeles LOMOD Corporation, was selected by HUD as Contract Administrator for over 48,500 units in more than 800 Section 8-assisted projects in ten Southern California counties: Kern, Imperial, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Luis Obispo, Santa Barbara, and Ventura. LOMOD will carry out Contract Administration to assure the properties provide quality housing for eligible seniors, persons with disabilities, and families. Under a performance-based contract with HUD, LOMOD will handle on-site management reviews and tenant concerns, renew expiring contracts, and make payments to owners.

III. The Los Angeles Housing Market Challenges the Section 8 Program

- If California were a nation, its economy would rank sixth in the world
- If Los Angeles County were a state, its population would rank ninth in the U.S.
- If the City of Los Angeles were a state, its population would rank it 27th, behind California and 25 others, and just after Colorado, Kentucky, and South Carolina.

California's population of nearly 34 million per the 2000 U.S. Census is 12% of the national total, and is expected to grow by 600,000 a year through the decade. This growth against decades of under-producing new housing is the key cause of the housing crisis. For the last few decades, it has been estimated that California produced about 100,000 fewer units per year than was needed to keep up with population growth.

The result is the current environment of high home prices and high rents. Los Angeles' median home price for May 2003 was reported as $313,000, a 21.3% increase in one year. Since CAR estimated that only 29% of Los Angeles households could afford the lower April 2003 median home price, it is clear why the 2000 Census found that more than 61% of Los Angeles households are renters. But renting is also expensive. A December 2002 RealFacts survey found an average rent of $1299 in LA County.

For several years, the Miliken Institute has cited the short supply of housing affordable to workers as a key barrier to business recruitment and retention in California. As one moves down the income ladder, the housing affordability problem worsens dramatically. Recognizing the destructive impact the housing crisis has on families, communities, schools, health care, public safety, businesses and the economy, led California voters to pass a $2.1 billion Housing Bond last year. Given California's current and projected budget problems, Housing Bond funds may be the only contribution the state can make to housing for the next few years.

Los Angeles is California's most populous City and most populous County. With the City nearly fully built out, adding more housing units is a challenging prospect of infill, site re-use, and higher density housing construction. The City of Los Angeles has taken several key steps to improve the housing supply. The City established a Housing Trust Fund, actively pursues other sources of housing funding, and has an aggressive Code Enforcement program to improve the quality and habitability of existing housing units.

The sharply rising housing cost challenge posed by inadequate supply in the face of sharp population growth is worsened by California's and Los Angeles' high levels of poverty, and the trend of flat or declining median incomes reported by the decennial census reports and interim census surveys. The median incomes that HUD calculates for determining income eligibility limits includes calculations of housing costs, and annual inflation factors, and so tend to run higher than census reported medians. For example, HUD reported a $52,100 median income for the Los Angeles-Long Beach MSA for 2000, but the 2000 Census reported a median household income for the similar area of Los Angeles County as $42,189.

Based on Census estimates, the Los Angeles Almanac reported that Los Angeles County median household income rose only $7224 or 20.7% over the 1989-1999 decade, from $34,965 to $42,189, while the Consumer Price Index rose 34.6%. If the last decade's 20.7% growth in median household income is compared to the above one **year in jump in Los Angeles home prices of 21.3%**, the market challenge becomes clear.

While Los Angeles is home to great wealth, Los Angeles County also has a larger welfare population than that of 48 states. This income gap creates a disastrous housing market for lower income households. The 2000 census shows that California home values were more than $90,000 above the national average in 1999. Since then we've had three years of double-digit price increases. Rents are also up sharply.

While the Housing Authority supports the administration's emphasis on increasing homeownership, especially among minorities, our housing prices limit the impact this effort can have in California and Los Angeles. To overcome the large gap between prices and incomes, the Housing Authority has developed a network of partners for first and second mortgages, and down payment assistance.

Los Angeles needs more housing assistance and more assistance in constructing affordable housing, particularly multi-family housing in our built out cities. Our deep knowledge of the market and strong relationships and credibility with property owners, gives us the needed capacity to effectively deliver housing assistance. Our strong, wide, and diverse network of partnerships with employment, health, and social service provides positions us for effective leadership in self-sufficiency efforts based on the secure stability of affordable housing.

IV. Over-coming Market Obstacles through Partnerships and Innovation.

- The Housing Authority of the City of Los Angeles partners with 17,000 owners to make the Section 8 program a success in Los Angeles.
- We partner with a large network of agencies and nonprofit organizations to provide effective of housing, supportive, and self-sufficiency services.

It takes this full knowledge of local housing markets, effective relationships with owners, and strong partnerships with local agencies and nonprofits to effectively administer Section 8 programs to meet needs of disadvantaged people.

Decisions made at different levels of government, and by companies in different parts of the country, can cause drastic changes in local housing markets, as factories open or close, industries grow or shrink, and the economy overall prospers or falters. Such events tend to immediately reduce state tax revenue, making it difficult to impossible for states to respond effectively in a timely manner to the broad range of new service costs that follow. Thus local delivery of housing assistance must continue to be backed by federal funding.

When we re-opened Section 8 applications in 1998, over 100,000 application requests were received in the first few weeks. To meet this obviously growing need for housing assistance resulting from Los Angeles's population growth and complex economy, the Housing Authority consistently pursued new Section 8 allocations. Thanks to the many years in which Congress appropriated funds for incremental vouchers, and our record of performing, HUD regularly awarded us new Vouchers and new sub-programs.

However, several national and local events turned what had been a fairly good housing market in Los Angeles into a very low vacancy market with sharply rising rents starting in 1997. The Housing Authority, which had been a national leader and high performer in Section 8, since the program began in 1975, suddenly faced huge challenges.

Our normal experience of nine out of ten voucher holders find and successfully contract a unit under Section 8 dropped to a low of four out of ten succeeding by 2001. This was due to several factors:

- Because the population grew sharply, and the dot-com and general economic surge created a significant number of highly paid jobs, beginning in the mid-1990s the housing demand greatly exceeded supply. The rental market tightened, vacancy rates dropped to as low as 2% by the late 1990's, and rents rose sharply.

- Yet effective October 1995, HUD reduced the Section 8 Fair Market Rents (FMRs) from the 45^{th} to the 40^{th} percentile of the market. This left only 20% of a dwindling market available to Section 8, because the bottom 20% does not pass inspections. HUD then intensified this challenge to the market by again reducing FMRs for the Los Angeles in October 1997, based on a Random Digit Dialing (RDD) survey. Thus Section 8 FMRs were reduced twice, just as the private sector was reporting, and we were encountering, significant rent increases.

- From 2000 to 2001, the old Section 8 Certificate program was converted to the Section 8 Housing Choice Voucher program. The timing was disastrous for Los Angeles, because HUD required that owners be given the option to leaving the program rather than convert. In a tight market with sharply rising rents, owners of 8000 units chose to leave. The same market that benefited owners caused the tenants of 4000 of those 8000 units to fail to find replacement housing. Their incomes and the lowered Section 8 FMRs made them unable to compete. They no longer receive assistance.

These events were a perfect prescription for failure, and occurred just as HUD began a stiff, new performance monitoring system for Section 8. The Housing Authority faced a grim decision: stop applying for new allocations in order to maintain program performance at the cost of reducing our ability to serve the City's growing needs, or continue to apply for new allocations, but endure reduced performance ratings their receipt would create.

The Housing Authority chose to pursue greater good, build additional partnerships, and implement program innovations. We:

- Continued to apply for new allocations and new sub-programs.

- Completed conversion to Housing Choice Voucher (HCV) program, increased staff to attempt to re-contract the 8 Special 8000 families, who lost their rental assistance because their landlord opted out of Section 8, and assisted families from the long waitlist.

- By the end of 2002, we regained an overall lease up of 42,432 (97.2% of one year/older allocations - 5,787 more units than 2001.)
- By the end of May 2003, we reached 99% lease-up.

Innovation: Implemented same-day voucher issuance for those providing all required verifications at initial interview (30% of applicants benefited)

- Added a new "Tenant Empowerment Success Strategies" (TESS) unit to Owner Outreach efforts to retain and recruit owners, and to partner with other agencies to assist participants in overcoming special barriers in their housing search efforts, such as disability, homelessness, or victimization.
- **Innovation:** Reduced to one week, the wait for the first rent subsidy check by implementing a same day "contract move-in" process when owners return signed contracts.

- Performed a market rent analysis demonstrating the huge gap between HUD's published Fair Market Rents (FMRs) in Los Angeles and actual rent levels
  Result: HUD corrected area FMRs resulting in a 17% increase in 2002.

- Applied to HUD for exception allowing higher Voucher Payment Standards (VPS)
  Result: Granted exception to set VPS at 50th percentile of the market.

- Continued applying for allocations to meet Los Angeles's growing needs, and expanded partner services.
  Result: With a fully leased Welfare-to-Work Voucher allocation and our strong partnership with the Department of Public Services, the Housing Authority added regular Vouchers to nearly double the number committed to this effort.

By adopting a business plan, strategically increasing staffing, working with partners, and implementing several innovations, the Housing Authority was able to overcome the tight housing market and return to its standard high lease-up rate. The size and complexity of our program is reflected in the following examples of key areas of 2002 productivity that set the stage for our return to a 99% lease-up by June 2003:

- Mailed 70,000 applications out to registrants on the waitlist.
- Entered 27,755 new registrants on the waitlist. (By 6/20/03 added 24,000 more.)
- Scheduled 43,772 initial interviews, and conducted 28,614.
- Issued 21,646 Vouchers.
- Received 10,665 Requests For Tenancy Approvals (RFTAs).
- Conducted initial (pre-contracting) inspections on 12,355 units.
- Conducted a total of 79,229 inspections.
- Completed 52,031 income and rent reviews.

Although it took time, our choice and efforts have proven to be the right ones. More people are assisted in Los Angeles than ever before, our current lease-up rate is 99%, and we continue to improve and expand our program operations and services.
We believe that our local administration, relationships with owners and nonprofits, and our efforts to create leadership and employment incentives for participants make a more effective program.

V. The Section 8 Recapture Issue

Just as the Housing Authority's right choice for Los Angeles led to the temporary consequence of lowered lease-up in a highly resistant market, when Congress makes the right choice for the nation by appropriating funds for incremental Housing Choice Vouchers, it sets the stage for some degree of housing fund recaptures.

Because the scoring for the one-year incremental voucher funding begins at appropriation, but HUD does not award the incremental vouchers until several months later, some funds will not be used in the appropriating year. The larger the new allocation to a housing authority, and the more resistant its housing market, the longer it will take a housing authority to contract the new voucher allocation.

The radical tightening of several major housing markets since the mid-1990s intensified the utilization challenge for many housing authorities. HUD's requirement to allow owners to opt-out rather than convert to the Housing Choice Voucher program was a poorly timed additional challenge, and proved disastrous for large programs in tight markets.

The Housing Authority of the City of Los Angeles was one of the most impacted. Although our choice to continue applying for new voucher allocations and to innovate to cope with a very difficult housing market was positive for the City and its poor residents, it also caused a short-term recapture problem for HUD and Congress. Because we received large new allocations for a tight and problematic housing market, and because we have the nation's second largest voucher program and thus high level of budget authority, the Housing Authority of the City of Los Angeles accounted for some of the highest levels of voucher fund recaptures in the country in the last few years.

HUD retrieved $244,482,202 from the Housing Authority of the City of Los Angeles in the last five years, or 16.9% of the Authority's total budget authority. The New York City Housing Authority, with the nation's largest program, had $194,726,803 retrieved over the last two years. Los Angeles had an annual budget authority (BA) of $325,555,420; with $289,407,240 for Housing Assistance Payments (HAP), and $36,148,180 for Earned Administrative Fees. Funds retrieved from Los Angeles can be explained by:

- **Our decision to apply for additional voucher allocations, and success in being awarded more vouchers, accounts for 47% of funds retrieved.**
    - Rising rents and the long, growing waitlist demonstrated the City's need.

    - The waitlist is now over 70,000. More than 4000 register each month.
    - The very tight market drastically reduced housing search success, and lowered search success, and thus slowed lease-up of new allocations.

- **HUD's requirement that owners be permitted to opt out of Section 8 rather than convert to the Housing Choice Voucher program accounts for more at least 21% of the funds retrieved from the Housing Authority:**
    - Owners of 8000 units contracted under Section 8 decided to opt out.
    - HACLA re-contracted 4000 of these families in other units, but 4000 families lost their assistance because they could not find new housing.

- **HUD reduced the Section 8 Fair Market Rents (FMRs) by 14% effective October 1997. The lower FMRs resulted in lower contract rents, and thus lower Housing Assistance Payments (HAP). This accounts for 14% of the funds retrieved.**
    - The lower FMRs also reduced the supply of units available to participate in the program, causing thousands of families to fail to use their Voucher.

- **Congress and HUD reduced the maximum allowable reserve account amount from 6 months of HAP to 2 months in 1997, then to 1 month in 2002, accounting for 9% of funds retrieved:**
    - Our large program and high rents mean large HAP and large reserves.

- **Normal turnover, and the protracted housing searches and failures that resulted from Los Angeles's very tight rental market could wholly explain the remaining 9%.**
    - However, it is also true, that we were conservative in our estimate of 21% attributed to converting to the Voucher program. due to incomplete documentation of this loss during the hectic effort to recontract the 8000 families whose landlords opted out.

We agree that Congress & HUD should retrieve unused BA from housing authorities that cannot or will not use it. However, we also believe it is a disservice to the community a housing authority serves for such funds to be retrieved before the housing authority was given the necessary tools and time to cope with the dislocated housing market that is often the cause of such unused funds. When the dislocation is one of supply and demand driving rents sharply up, retrieving budget authority meant to assist needy families simply worsens the community's already bad situation.

Specific steps that HUD should quickly grant a housing authority necessary flexibility when such market conditions arise are

- Local flexibility to quickly adjust FMRs in tight markets
- Flexibility to use HAP for housing search supports and security deposits, and
- Adequate time to use the vouchers (especially important in tight markets)

With measures that Congress took in the FY 2003 Omnibus budget bill, and no funding for incremental vouchers, Congress should see a sharp reduction in unused budget authority by housing authorities.

In fact, because FY 2003 appropriations provided for a 90% national utilization rate, plus another 4% in a Central Fund, it is likely additional funds will be needed to meet Congress' instruction that all allocated and used vouchers be funded. When we conducted an informal survey of several California housing authorities recently, their April and/or May 2003 lease up rates ran from 97% to 108%. The one exception was a small program in a very high rent, low vacancy city, and its rising lease-up rate was already at the full 94% that Congress appropriated.

Time to test the full impact and/or limitations of the FY 2003 changes on the complex Section 8 program is needed. Particularly, because these changes have not yet been tested in an environment of incremental voucher appropriations. With HUD's mandate to reduce lease-up rates to insure the housing authority stays under 100% utilization for the year, housing authorities will not be able to carry the over contracting that instantly absorbed some incremental vouchers. Thus even maximum contract efficiency in loose housing markets will result in some months and amounts of housing assistance going unexpended within the year appropriated.

VI. HANF Is Not the Best Solution for California

Members of Congress have pointed out that poor people cannot afford to be subjects of ongoing experimentation. Similarly, California's housing and budget crises are too severe to allow the necessary risk of failure that the HANF experiment would entail.

A large number of public, private and academic groups have already testified before the Subcommittee regarding the wide range of problems and shortcomings in the proposed Housing Assistance for Needy Families Act of 2003" (HANF).

The National Association of Housing and Redevelopment Officials (NAHRO) reported the results of Canada's HANF-like decision to devolve housing assistance from federal control to the provinces. Both levels of government backed away from their obligations and reduced housing funding. Lower-income people paid a very serious price.

- Those paying more than 50% of their income as rent rose 43%, and emergency shelter use increased significantly in many cities
- Incomes rose 4.1% per year, but rents rose 3% -7% per year from 1997 –2000
- Only two of Canada's thirteen provinces maintained their level of financial support for affordable housing programs
- Federal funds for affordable housing programs dropped $7.4 billion (1996-2001)

Now, Canada is paying the political and programmatic price to return to a responsible federal commitment to the delivery of housing assistance.

Los Angeles needs effective action:

- More housing and housing assistance, not less funding for housing.
  Voucher demand already surpasses supply
- More effective and more market-responsive programs, not experimentation.
  The program is already complex and slow to respond to markets
- More self-sufficiency supports for families struggling with low wages in a high housing cost environment.
- Fewer demands on the troubled state budget, not more.
- More local partnership and cooperation to address complex local problems, not additional layers of distant bureaucracy
  Delayed response to changing markets is costly, and the rules are complex now.

Unfortunately, HANF appears to be poised to meet none of these needs, and instead to worsen an already dire situation.

HANF would harm the poorest members of society

- Less actual housing assistance would mean longer waits on longer waitlists
- Funding below housing costs increases would mean fewer assisted, or less subsidy paid by helping poor people less or helping fewer poor people
- One HANF reform would raise tenant rents to be based on gross income.
  Those with high medical expenses, costly needs to cope with disabilities, high childcare costs, and large families, need current deductions for affordable rents.
- More directly, the bills specifically discuss assisting higher income families.

Housing markets are local and housing service delivery must be local

- Providers must know local markets and local owners to be effective
- Voluntary participation by owners means local providers must be credible
- Services must be delivered locally to owners and tenants with local partners
- Market knowledge, credibility, and partnerships take time to build.
- Housing authorities have already built these capacities.

Changing to HANF may be so disruptive that owners abandon the program

- Owners are already voicing opposition, individually and in meetings
- National owner associations have already opposed HANF
- National Mortgage Bankers testified against HANF

The HANF funding outlook is bleak:

- Block grants have not kept up with inflation let alone growing need
- Recent federal budget trends appear to indicate an intention to cut housing:
  the budget deficit is growing and no new vouchers were funded for 2003
- The Section 8 Administrative fee has been restricted in amount and use
- Costs to operate the program are unlikely to decline.
  Local housing costs and poverty conditions drive program costs.

HANF would add unnecessary costs to increasingly inadequate housing funds:

- State administration would be an extra cost
- State administration would likely add extra costs of regulation and reporting
- Promises that HANF will reduce costs sound like past promises that funding cuts would come with regulatory relief. PHAs are still waiting.
- Maintaining HCV provisions for current tenants for five years while implementing HANF, creates more complexity, not less, and limits cost savings

Past utilization challenges is not sufficient justification

- HANF does not address utilization, which fluctuates with market conditions
- Housing authorities solve utilization issues with local knowledge and partners
- Reportedly, the national utilization rate in January 2003 was 95.3% and rising.
- A recent survey of several California programs indicates a rate nearer 99%
- HUD directed agencies with utilization above 100% to reduce lease-up so as not to exceed 100% utilization for the year.

VII. Recommendations

1. Dynamic housing markets require local rent flexibility

While we applaud HUD for granting waivers if certain criteria are met, to base Voucher Payment Standards on the 50th percentile Fair Market Rents (FMRs), our experience, described earlier, shows that this bureaucratic approach is too little, too late, and too costly to poor families. Even before the surge in Los Angeles rents, our experience showed the 1995 reduction in FMRs from the 45th to the 40th percentile, followed by another reduction in FMRs in 1997 harmed poor families and program success.

Housing authorities need the flexibility to respond promptly to market surges, and the accountability to adjust downward if and when rents and vacancy rates relax. Costs can vary tremendously within a housing market. Greater FMR flexibility would assist in efforts to deconcentrate poverty, and allow local jurisdictions to make the best use of scarce housing funds.

Recommendation:

Raise FMRs nationwide to the 50th percentile, and conduct a new are rent survey whenever area vacancy rate drops below 3% and/or housing search success rate drops below 50%

- By allowing housing authorities to set their voucher payment standards for the best use of funds within their jurisdiction to either contract more families at lower rents, or pay higher rents but assist fewer families, housing authorities can better serve participants, owners and their jurisdictions, and better respond to changing housing markets and population or demographic shifts.

2. Test current policies and regulations against the realities of markets

We agree with Senator Bond that the nation should allow time to test the measures that Congress implemented in the 2003 Omnibus budget bill. We believe that Congress will find that low voucher utilization is no longer a serious problem.

Recommendation:

Begin program and market monitoring to measure the impact of recent changes.

- Commit to continual program quality improvement via ongoing industry, owner, and tenant meetings to respond to market changes and promote innovation.
- However, we also believe that existing, older problems still need addressing, and that the Omnibus bill has, or may have, created new challenges.

3. A new problem of over-leasing may arise.

Housing markets and costs are always in motion. If housing authorities strive for 100% utilization, they are bound to overshoot in many, if not most cases. One way to address this predicted problem, may be to link the solution to over-utilization with to a solution to the converse problem that incremental vouchers are not fully utilized immediately upon appropriation.

Recommendation:

Monitor and study the interaction of efforts to sustain 100% utilization against dynamic housing markets, for any improvements needed for maximum funding use efficiency in years with and without appropriations of incremental vouchers.

- Test creating a new biennial or multi-year "revolving fund" for incremental vouchers that would be drained by lease-up and replenished by appropriations. After working with the industry to establish reasonable over-leasing constraints, HUD would use the incremental revolving fund in two ways:
    - To immediately fund agency end-of-year over-leasing for sufficient time to allow the agency to return to allocated levels, and
    - To award incremental vouchers to eligible agencies.

4. Increase the housing that can be developed by providing more flexibility and incentives for coordinating Project-based Vouchers with Low Income Housing Tax Credits (LIHTC), HOME funds, and other funding sources to increase development, asset management and revenue diversification.

The current housing cost problems in many areas, and the coming increased demand for subsidized housing for the elderly and frail-elderly, argues for the greatest degree of program and funding flexibility. The nation's supply of housing affordable to low, very low, and extremely low-income households must be significantly increased.

Recommendations:

- **Allow housing authorities to attach at least 25% of their allocated tenant-based vouchers to the development, rehabilitation or preservation of housing structures as "Project-based vouchers", and exceed 25% with HUD approval.**

- **Give housing authorities the authority to decide on locations for project-based assistance, in coordination with the goals of the jurisdictions Consolidated Plan goals.**

- **Continue to provide project-based assistance as long as the property continues to provide decent and affordable housing to eligible households.**

- **Remove any limit the number of units that can be assisted in a building.**

Thank you for this opportunity to describe our programs, partners, challenges and successes in Los Angeles. We are also including the following information as attachments:

Attachment 1:	**Answers to the Subcommittee's Questions**
Attachment 2:	**Tenant Empowerment Success Strategies (TESS)**
Attachment 3.	**Family Self-Sufficiency (FSS) success stories**