

## **Testimony by William O. Russell III before the Subcommittee on Housing & Insurance**

### **Hearing on HUD's Role in Rental Assistance: An Oversight and Review of Legislative Proposals on Rent Reform, Wednesday, April 25, 2018**

Good afternoon, Chairman Duffy, Vice-Chair Ross, Ranking Member Cleaver and members of the Subcommittee. My name is William Russell, and I appreciate the opportunity to testify today on behalf of the 84 housing authorities in the great state of Florida which compose the Florida Association of Housing & Redevelopment Officials (FAHRO).

A year ago a group of Florida housing executives gathered and concluded that it was necessary to get serious about reforming HUD's rent policies and if true rent reform was going to happen, it would be helpful for FAHRO to put pen to paper and present specific suggestions for policy reform. So we commenced to do just that and immediately appointed a task force to develop such a rent reform proposal. The task force completed its' work and presented it to the FAHRO Board for approval. Current FAHRO president, Debbie Johnson, and I traveled to Washington to share the proposal with congressional and HUD staff.

We are very pleased that Chairman Ross has embraced our proposal and incorporated it into the discussion draft before you today.

FAHRO's rent reform had six principles:

Principle I: Encourage increased earned income and path out of poverty

Principle II: Hold harmless the elderly and disabled, but simplify

Principle III: Encourage intact families

Principle IV: Maintain housing affordability

Principle V: Achieve real simplification

Principle VI: House more families

We all share a desire to and the goal of providing housing assistance that will serve as a springboard of opportunity for the families we serve and that with affordable rent and supportive programs, our families will move up the economic ladder and move into unsubsidized housing that they can afford on their own. My testimony today is focused on how we can be more effective at furthering this goal for our families.

#### Discouragement & Frustration with Current Rent Policy

The keystone of FAHRO's desire to reform HUD's rent policy is that the current policy message says to families receiving HUD rental assistance, the more you earn the more you pay in rent. There is no incentive to do better - only a promise of higher rent. Our families are not served by current policy, only held back.

FAHRO members, as housing professionals who serve and know our families well, are dismayed by how the current rent policy discourages the economic progress of our families. Additionally, the rent policy is burdensome as it requires housing authorities to constantly monitor changes in income. When a family increases their earned income, the housing authority increases the rent accordingly. In many cases, the head of household is discouraged by the increase and will do what it takes to reduce their family's rent

burden, including turning down a raise, working fewer hours or quitting their job altogether. We witness these decisions regularly. While these decisions run counter to what we want to see from our families in order to better their economic and family situation, they are understandable given how much the rent policy taxes increased earnings, rather than encourage it. It also rewards residents who voluntarily quit their job, since the housing authority must immediately drop their rent to the bare minimum rate of which was set in 1998.

Given the impact of the current policy, we must ask ourselves these questions:

Why would we keep a rent policy that discourages our residents from increasing their earned income?

Why would we keep a rent policy that is so complicated to calculate income with exclusions and deductions that it causes hundreds of millions of dollars in errors?

Why would we keep a rent policy that says if you quit your job voluntarily, we will immediately reward you by decreasing your rent to the absolute minimum under the law?

Why would we keep a rent policy that taxes two-parent households by charging more rent for two incomes rather than encouraging a cohesive family unit it by allowing two working adults to share the rent burden?

Why do we keep a one-size-fits-all rent policy that gives local housing agencies zero flexibility to address the individualized needs of their community?

Let me give you some actual, recent examples that housing professionals have shared with me about clients they serve and know:

- A couple worked and had dual incomes. Both, however, reduced their hours worked due to their rent going up to \$830 per month. Both are willing to work more and even get a second job to save for homeownership. But if the rent keeps going up they don't believe they can save any money and get ahead. Thus defeating the point of working harder.
- A client earned a better job, but when her rent increased she fell behind on her higher rent. She was able to get financial assistance through a local agency to pay the full rent, but she decided to quit the new job believing she would be better off not working.
- A voucher participant found a job earning \$35,000 a year working for an insurance company. Once she was notified of her rent portion she contacted her case manager because she believed her rent was too high and she would be unable to maintain the rent. She then quit the job six weeks later. Her rent was then dropped to the minimum rent of \$50 and when the \$75 utility allowance was applied, the housing authority owed her a check for \$25 to help her pay her utilities.
- A resident obtained a second job to maintain her bills. Once she was notified of her rent change she quit one of her jobs. She also stated that she couldn't 'come up for air.' The reason for the additional job was so that she could live somewhat comfortably, but with the rental increase it was pointless to keep the second job.
- A resident submitted paystubs that happened to have over time hours. Once the resident was notified of the rent increase, the resident stated that she would not take on anymore overtime hours moving forward.

These are the discouraging impacts of our current rent policies on families we are trying to help advance. These decisions – all because of the rent policy – clearly demonstrate that the current rent policy is holding our families back and stunting their economic progress. This is very discouraging and it does not need to be this way. Our families and our communities deserve better.

### Rent Reform

I want to address how Promoting Resident Opportunity through Rental Reform will improve things in three important categories.

- A. Reduce Barriers to Economic Advancement & Wellness
- B. Provide choice in rent policy to local housing agencies that know their families and the local economic opportunities best; and
- C. Offer real simplification in how income and rents are calculated and the frequency of having to recertify income.

This PRO Rent Reform bill includes several options for housing authorities to choose from. I will offer brief comments on each potential option in the discussion draft before you.

30% of adjusted gross income – This most closely resembles the current rent policy and would continue to be overly complicated and prone to errors. It does give families two full years rather than just 12 months to enjoy the benefits to increased earnings and to begin to gain a better economic footing. I would recommend that a family not be eligible for an interim rent adjustment if the family voluntarily terminates or reduces an income source. I would also recommend that the minimum rent be updated to \$75 and indexed to inflation as this discussion draft does for the gross rent option.

Tiered rents by income bracket – This option brings public housing and Section 8 into alignment with other housing programs that set flat rents based on income categories, such as the HOME program, the Neighborhood Stabilization Program, the Low Income Housing Tax Credit Program, and even the National Housing Trust Fund program for extremely low income renters. These flat rent policies preserve affordability within income brackets while allowing upward economic movement that doesn't automatically trigger higher rents. This tiered rents by income bracket also allows the additional year of earnings before the family is recertified. This option simplifies rent calculations tremendously for housing authorities. It also ends the undignified and burdensome process of families having to bring in documentation for any number of deductions under the current policy. The discussion draft should incorporate a discount for two-income or intact families as other options do. This rent structure has been effective for Moving to Work agencies that have implemented it and is a very attractive option both in terms of encouraging earned income gains and simplifying rent calculations.

Stepped Rents – This policy offers the greatest incentive to increase earnings and ultimately move out of HUD-assisted housing. This policy offers residents true affordability in the early years of their tenure and is completely transparent. The family understands what their rent is and when it will go up. If a family increases their income, it doesn't have any impact on their rent and they can enjoy the full economic benefit of their increased earnings. This option also allows for a two-parent household to not be penalized with a higher rent. It dramatically simplifies rent and income calculations for housing professionals and would allow them to help prepare families for their next rent tier by helping them

plan for and access education and/or job training opportunities. Compared to HUD's Rapid re-housing program to get homeless into housing where the rental assistance typically phases out after two years, the stepped rent option offers a much more gradual decrease in subsidy over 8-10 years and provides time for residents to augment their educational and career training attainment.

30% of Gross Income – This option simplifies the income and rent calculation significantly, which will greatly reduce subsidy errors. It will give families a two-year time period to earn more without a rent increase and it gives a second income earner in the family a steep discount so as to encourage more two-parent households. This option should not allow for interim rent adjustments if the family voluntarily terminates or reduces an income source.

#### Shallow Subsidy Voucher

This is another optional policy tool to address need for housing assistance that far exceeds available vouchers. A voucher as we know it today, is truly a golden ticket. It offers very deep subsidy as well as choice, mobility and portability. It has no time limit on the rental assistance. There is so much demand for vouchers that most agencies close their lists for years on end. The shallow subsidy option offers a different approach to helping rent burdened families cope. It offers them a shot in the arm they need that can be the difference between covering their rent and being homeless.

Families contact us daily asking for some form of rental assistance so they can remain in their house. They are working and earning a living, but it isn't quite enough to cover the rent which is outpacing wages. They need help, but they can't get a golden ticket voucher because the wait list is closed.

Under the shallow subsidy voucher option a housing authority has the option to offer a shallow subsidy voucher to families in need, and the family then has the option of accepting it or not. This is not a housing solution for everyone. However, it is a solution that will work for a lot of low-income families struggling to make ends meet who are rent burdened. Advocates call for more voucher funding to augment the number of vouchers agencies can issue. While that sounds good, we know that current budget pressures make that unlikely. The shallow subsidy option allows agencies to house more people with the same amount of money. The only downside to this is that there won't be as many standard deep subsidy vouchers available, but if the tradeoff is housing more families in need, it is one that many agencies will seriously consider.

Subcommittee questions:

1. What safeguards should the Subcommittee consider to ensure that families affected by the legislative proposal will be protected from discrimination or unintentional adverse impacts with the goal of achieving self-sufficiency or greater access to employment or career opportunities?  
A: The only option I would see a possible need for a safeguard would be the stepped rents option, where after seven years, the family would be required to pay the equivalent of the current flat rent amount for public housing as set by Congress. This option does include a hardship provision which would allow agencies to make necessary adjustments for circumstances that may be beyond the family's control.

2. Does HUD's current rental housing construct for its main rental assistance programs contribute to an over-reliance on government assistance, making it difficult for low-income families to change their economic circumstances for the better?

A: As I state earlier in my testimony, I believe it does contribute to an over-reliance on HUD assistance because instead of giving them an incentive to earn more, we tax their increased earned income by charging a higher rent. It is the same 'economic cliff' effect that plagues many of our federal anti-poverty programs. When families are on the verge of earning more and doing better, they peer over the edge of an economic cliff and see the benefits they stand to lose, such as food stamps, child support and housing assistance. It is not surprising that some hesitate to lose that assistance and take a precautionary step back. Many of us would make the very same decisions. We must correct this economic cliff effect if we want families to reach their full potential for economic and family well-being.

3. What steps can policymakers take to ease regulatory burdens on housing providers, residents, and property owners when implementing housing assistance?

A: The most impactful step is through rent reform like this discussion draft that offers real options at the local level and the potential for very significant simplification of and reduction in the frequency of income and rent determinations that take up the bulk of time for many section 8 case managers and property management staff. Not only does the current rent policy demand a great deal of resources (time and staff), but it also has opportunity costs. I would much rather utilize my housing professionals to help provide key resources to our families than to be doing countless interim and annual income recertifications mandated by current policy. Not only is this burden not necessary, it is having a detrimental impact on our families and our organizations.

4. Do housing providers have the flexibility and choice to structure rent calculations and programs that work best with their local priorities and families they serve?

A: Only the 39 Moving to Work agencies have true flexibility to implement innovative rent structures and programs, and many have been extremely successful. This is because they know what is needed in their communities and how best to tailor programs to meet those needs. The one-size-fits-all federal housing policy doesn't work. Real estate markets are not uniform and neither are the communities we serve. What works in New York City may not work in High Point, NC. We need flexibility, within certain frameworks, to tailor our programs and policies to meet local needs. The only real local flexibility housing providers have currently is in the area of setting waiting list preferences. However, once they are admitted into one of our housing programs, we have to follow the uniform federal rules and restrictions. Let me give you an example. My board established a preference for families who had 6 consecutive months of employment. My board learned that once these same employed families were housed, some of them quit their jobs to secure a lower rent. My board determined it did not do any good to have a working preference for admission if families were going to then stop working once they moved in.

In closing, I am grateful and honored to have the opportunity to appear before you today and provide testimony on the current HUD rent setting policy as well as the PRO Rent Reform discussion draft. As

housers, we see up close the impact that the current policy has in holding back our families from the progress we want for them and that they want for themselves. As more families do better and graduate from assisted housing, more units become available to assist other families, and as a result we will be able to serve more families over time. I ask that you give serious consideration to changing the current rent policy to encourage, not penalize, economic advancement and wellbeing.