



Remarks of Jon Gutzmann for the CLPHA meeting, March 23, 2017
“New Strategies for Administering Low-Income Housing Programs”

I am speaking as a long time member of CLPHA, PHADA and NAHRO. All three members of this “CLPHA panel” also serve on the PHADA Board of Trustees. Many of us in this room, and certainly the St. Paul PHA, find membership in all three industry groups as an essential element for asset preservation and growth. Thank you Sunia for the time to discuss “new strategies”.

Today my goal is to help convince the three national organizations to fashion a new consensus on asset preservation and conversion beyond MTW and RAD. Our collective playbook needs to be deeper and more inclusive than MTW and RAD given the likelihood of far-reaching and imminent Congressional reform proposals. 139 MTW agencies out of 3,200 PHAs and 185,000 RAD units out of 1.1 million units won’t cut it. And given the possibility of a possible 68% reduction to the capital fund, there has never been a more urgent time to unite behind key asset preservation and conversion concepts.

NYCHA chairwoman Shola Olatoye said it best at a March 13, 2017 City Council budget hearing “There is no ‘doing more with less,’ which we’ve done every year for more than 15 years. So there will be tough choices ahead.”

The transition letter CLPHA, PHADA and NAHRO submitted to HUD was a great first step in articulating our thoughts about the “tough choices” ahead. The deliverable I’m proposing today is a tad more aggressive. It’s a draft I call “Essential Elements of Asset Preservation and Conversion”. Some version of this needs to be completed in two weeks or so.

But don’t freak out. The first five “essential elements” have already been written by our colleague, Rick Gentry. I’m referring to Rick’s testimony of February 21, 2017 for Congressional staff. My comments build from and add to Rick’s paper. So, thanks to the work of one of the best minds in the industry, we’re already about 75% there.

Rick wrote “The combination of LIHTC, rental housing vouchers, and mortgage insurance programs together with local flexibility and creativity can create a new world for affordable housing going forward. And it is important to keep in mind the need for funding at appropriate levels if public housing is converted to HCV rental assistance.” Again, the first five bullet points of our new “essential elements” position paper are Rick’s:

1. LIHTC preservation and expansion
2. HCV (tenant and project based) preservation and expansion
3. Mortgage insurance programs
4. Maximum local flexibility and creativity
5. Appropriate funding for converted public housing

(Because I don't have the authority to place my talking points on the three industry group's letterhead, I commissioned two versions from our Executive Assistant's children, Brandon and Yulen, ages 8 and 12. A new generation of public housing advocates is born!)

I have about 15 minutes to sell you on adding other "maximum local flexibility options" for asset preservation and conversion. To Rick's five points, I've added (and not in order of importance) a sixth for rent reform, a seventh for the urgent matter of repealing HUD's demo/dispo rule, an eighth embracing Tory Gunsolley's waiver presentation, and a ninth stressing the absolute necessity of a CFP appropriation of no less than the amount funded in FY 16; \$1.9 billion.

If I'm not successful in getting CLPHA to adopt the "essential elements" concept paper by acclamation today, then we must commit to convening an industry leadership retreat in a week or so to hammer it out. No one can leave that retreat room until a paper is agreed upon. So, let's look at Rick's five bullet points, with friendly amendments as indicated:

1. LIHTC. No need to reiterate the obvious fact that this is "the most important resource for creating affordable housing in the United States today." The program must be preserved and strengthened. While we understand that corporate tax reform talk places the viability of LIHTC on the table, we don't have time to discuss that complex topic today.
2. HCV. Obviously the preservation and expansion of this affordable housing asset remains a top industry priority given the program's reach and flexibility. Affordable housing choice in privately owned housing, the ability to leverage other resources (including supportive housing for those experiencing homeless to mixed-income projects through PBV) and other strengths mean preserving HCV is "mission critical" work.
3. Mortgage insurance programs. Rick's mention of additional federal mortgage insurance programs such as FHA-insured multifamily mortgages and Fannie Mae products in his "essential list" is obvious and correct. Again we don't have time for a deep dive on these products today. However I want to raise one topic for member discussion. It's the creative idea Greg Russ threw out in one of PHADA's meetings with Clinton Jones; allow, as a local option, substituting a Land Use Restriction Agreement (LURA) for the Declaration of Trust (DOT). PHADA followed up advancing this potentially game-changing idea for capital financing in a letter to Mr. Jones. Greg and Tim Kaiser are prepared to speak to this today. I think this has to be in our "essential elements" paper.
4. Maximum Local flexibility. Rick's fourth bullet should be the mantra for our entire industry. Maximum local flexibility is the theme that comes out one way or another in every industry retreat I've attended. (Rick's quote: "Different jurisdictions across the country have unique housing needs...decisions are most effective when they are localized as often as possible and are made at the level closest to the jurisdiction. More local decision-making about affordable housing is needed today.") Amen!
 - a) I'm adding 4.a to Rick's outline: PHADA's Proportionality Paper. It came out of a 2015 PHADA leadership retreat. It discusses local options that are permitted for all 3200 PHAs to consider adopting when formula funding is insufficient. Flexibility cannot be limited to just the MTW and

RAD agencies. We all know deeply affordable housing only works when Congress and HUD live up to their contractual obligations to deeply subsidize it. When Congress does not live up to this duty, PHAs should be free to enact temporary measures that address the funding shortfalls. All are local options subject to local stakeholder discussion. These include:

Characteristics of Proportionality:

1. Triggered when funding falls below 90 percent of needed amount
2. Changes are temporary and cease when funding returns to 90%
3. Amount of revenue is capped by each agency's funding shortfall
4. Hardship provisions are in place to protect residents
5. Changes are voluntary; local options approved by your PHA Board
6. Congressional appropriation levels are unaffected

Proposed temporary measures (summarized on page 13 of paper)

1. Local option to increase minimum rents
 2. Local option to increase percent of income paid for rent
 3. Local option to eliminate or reduce deductions and exemptions
 4. Local option to eliminate utility reimbursement (negative rents)
 5. Local option to authorize specific user fees (such as application fee, trash hauling, parking, etc.)
 6. Local option to waive/change regulations
- b) Also I'm advancing again, a concept PHADA has in draft form, not quite ready for prime time, called Multi-family Conversion Option (MCO). The PHADA draft paper allows, as a local option, the conversion of all or a portion of PHA's portfolio to the existing multi-family program, pure and simple. And no, it's not RAD. Local decisions to convert part of the public housing inventory to the 202 program, or to the 811 program, or to other multifamily products, or simply the freedom to "convert" to the multifamily "rule book" have the advantage of appealing to members of Congress who are wary of inventing new programs. It needs to be kept on the table; something correct and worthwhile is in this concept.
5. Appropriate funding if public housing is converted to Housing Choice Voucher rental assistance. Rick quantifies his fifth point in his testimony: "In fiscal year 2017, HUD proposed funding approximately \$9,500 per family for HCV rental assistance. (\$20.9 billion for 2.2 million families), compared with approximately \$5,863 per family for public housing (\$6.45 billion for 1.1 million families)." Let's keep talking about this "cost of full conversion" figure versus thinking it's unattainable. Let's propose ways to achieve it, including generating locally held revenue from Proportionality, advancing HUD expenditure reductions (i.e., PIH, REAC) that flow from MCO, etc. We're a creative bunch; let's "crowd fund" this holy grail of all asset preservation concepts!

6. My four additional points begin with Rent Reform. Examples abound from MTW agencies, LIHTC projects, San Diego, etc., for sensible, locally determined affordable rents. In this funding environment, PHAs can no longer afford to administer what I call “case management” rents, where the 1.1 million public housing households potentially have 1.1 million DIFFERENT rents. At best that model only made sense in a 100% fully funded program. Again there are solid examples of rent structures that are deeply affordable yet simple to administer. I believe most PHAs could “process improve” their way to 10% fewer staff if rents were simplified. We must continue to advance this cause.
7. “Repeal and Replace” HUD’s harmful demo/dispo rule and guidelines. Okay, just convince HUD to abandon the harmful and probably illegal demo/dispo rule. Otherwise PHAs are in a true “Catch 22”: no money to exist, no way to reposition our assets.
8. Broad waiver authority. Perhaps the final play for asset preservation and conversion should it come to that. A radical thought might envision locally generated plans that are almost “MTW-like” in their approach. Perhaps they substitute entity-wide flat rents in place of “Brooke rents.” Perhaps they impose “fee for service” concepts as outlined in the Proportionality Paper. Perhaps they “assert” maximum local flexibility for capital financing by substituting LURA for DOT. Let’s task the excellent legal team advising the industry groups as well as those advising individual PHAs, such as Louise Seeba, general counsel for the St. Paul PHA, with crafting the legal arguments needed to convince HUD they already have the authority to approve sweeping waiver plans that preserve the less than 1% of America’s housing supply called public housing. Congress has effectively abrogated the overly prescriptive Section 9 governing statutes when they impose irresponsible budget cuts.
9. CFP. The capital fund has to be maintained. An appropriation of \$600 million or so is impossible to accept. At that level, Congress is essentially abandoning any semblance of support for the public housing program.

“There is a national shortage of 7.4 million homes affordable and available to the lowest income people in this country,” said Diane Yentel, president and CEO of the National Low Income Housing Coalition. “The proposed cuts would devastate critical programs that keep roofs over the heads of some of the most vulnerable people in our communities.”

To me, it feels as though many in Congress want to see public housing, this tiny, safety net program of 1.1 million deeply affordable homes out of America’s 133 million housing units, dwindle to nothing. Now more than ever, we need a joint industry paper summarizing the best existing asset preservation and conversion programs as well as bold new ideas to ensure local governing bodies have the tools they need to preserve this precious resource. I hope I’ve articulated some ideas that will make that list. Thank you Sunia for inviting me to present today. Thanks Shola, Rick, Tim, Tory, Greg and everyone gathered today for your inspiring words and work.



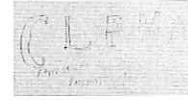
Jon Gutzmann, March 20, 2017.

Mission Reflection and Programs and Services Review at St. Paul PHA

1. PHA provides 8,900 affordable homes and links to services for over 21,000 people in St. Paul. 235 FTE PHA.
2. "The PHA helps families and individuals with low incomes achieve greater stability and self reliance by providing safe, affordable quality housing and links to community services"
3. We are also in the business of saving lives. One story from "One Day on Earth" video.



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Artwork by Brandon - age 9

9 Essential Elements of Asset Preservation and Conversion

From Rick Gentry:

1. LIHTC preservation and expansion
2. Housing Choice Voucher (HCV) preservation and expansion
3. Mortgage Insurance Programs and Products (JMG & Greg + LURA)
4. Maximum local flexibility and creativity (in addition to MTW and RAD)
5. Appropriate funding for converted public housing

Four Other "Essential Elements"

6. Rent Reform
7. "Repeal and Replace" HUD's demo/dispo rule and guidance
8. Broad Waiver Authority
9. Adequate Capital Fund

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Artwork by Yulen – age 12

4 (a) Maximum Local Flexibility: PHADA's Proportionality Plan

Characteristics of Proportionality:

- Triggered when funding falls below 90% of needed (formula) amount
- Changes are temporary and cease when funding returns to 90%
- Amount of revenue is capped by each agency's funding shortfall
- Hardship provisions in place to protect residents
- Changes are voluntary; all local options approved by your PHA Board
- Congressional appropriation levels are unaffected

Proposed temporary measures (summarized on page 13 of paper)

- Local option to increase minimum rents
- Local option to increase percent of income paid for rent
- Local option to reduce deductions and exemptions
- Local option to eliminate utility reimbursements (and negative rents!)
- Local option to authorize user fees (application fee, trash hauling, etc.)
- Local option to waive/change regulations

PHADA PROPORTIONALITY PAPER

Jon Gutzmann

- A position paper. Not a bill. Not draft legislation. Not Board-approved by your local PHA. A collection of thought provoking, even radical ideas that we hope will begin a dialogue toward sensible program reform
- Reminds Congress and the Administration there is a "contract" between the federal government and PHAs:
 - PHAs provide decent, safe apartments at artificially low rents so they are affordable to extremely low-income households; income-based rents vs. market-based rents
 - Federal government pays the difference between the revenue earned through the artificially low rents and actual cost of maintaining the homes and administering the program
 - When the federal government does not fully fund public housing, they are not living up to their end of the bargain. Radical notion: In this case, the federal government has "defaulted" on its right to enforce current statutes to the "nth degree"
- If some aspects of the paper become law, remedies are triggered when federal funding falls below a certain level (90 percent of full funding)
- PHAs will be permitted to alter certain program regulations on a temporary and proportional basis to increase revenue or reduce costs to maintain viability.



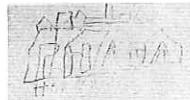
Artwork by Yulen – age 12

4 (a) Maximum Local Flexibility: PHADA's Proportionality Plan

Cost Savings with Proportionality: (detailed on page 13 of paper)

- Local option to increase minimum rents: \$100 million with \$100/mo. minimum
- Local option to increase percent of income paid for rent: \$600 million at 35%
- Local option to reduce deductions and exemptions: \$200 million if all eliminated
- Local option to eliminate utility reimbursements (negative rents): \$400 million with 400,000 families
 - Ends indefensible headline: PHAs “pay tenants to live in public housing.” No matter how well intended, no matter that PHAs are just “following the rules” this program feature, if widely reported, would probably garner 1% support among Americans surveyed.
 - St. Paul PHA: 194 of 1696 reported were on negative rents. Amounts ranged from -\$2 to -\$174 per month.
- Local option to authorize user fees (application fee, trash hauling, parking, etc.): \$80 million with 800,000 users at \$10/month
- Local option to waive/change regulations (savings not quantified)

5



Artwork by Brandon – age 9

4 (b) Multifamily Conversion Option (MCO)

- PHADA paper only in draft form, but the concept has some traction
- Allows, as local option, the conversion of all or a portion of a PHA's portfolio to the existing multifamily program...pure and simple
- And no, it's not RAD
- We understand the financial implications. Quantify and “transition plan” for them. Or, “crowd-fund” your individual application (can explain).
- Allows a PHA to make local decisions about asset preservation; convert to the 202 program? The 811 program? PBRA? Or simply the option to convert to the multifamily “playbook”?
- Concept would appeal to Members wary of inventing new programs (or perhaps those intent on killing the one called public housing)
- There is “branding merit” to the MCO idea; something is there...keep it on the table for further discussion and refinement.

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Artwork by Yulen – age 12

5. Appropriate funding for converted public housing. (Rick’s presentation: in 2017 HUD proposed funding \$9,500 per family for HCV (\$20.9 billion for 2.2 million hh’s), compared with \$5,863 per family for public housing (\$6.45 billion for 1.1 million hh’s). Let’s keep talking about this “cost of full conversion” figure versus dismissing it as unattainable.
6. Rent Reform: numerous examples abound from MTW, LIHTC, etc. PHAs are no longer sufficiently funded to administer what I call “case management” rents: 1.1 million PH renters = 1.1 million different rents! Most PHAs could “process improve” their way to 10% fewer staff if rents were “affordable but simplified”.
7. Repeal and Replace HUD’s harmful (and probably illegal) demo/dispo rule. Otherwise the ultimate Catch 22: no money to exist, no ability to reposition assets. Maintenance of the current rule raises suspicion that is the “plan”.
8. Broad Waiver Authority. Perhaps the last play for asset preservation and conversion, should it come to that. Some radical examples (and friendly suggestions for the industry legal team and individual PHA general counsels).
9. CFP. The capital fund must be retained at current appropriation; \$1.9 billion.



Artwork by Brandon – age 9

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