



**PRESENTATION BY
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**U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING AND INSURANCE**

**HEARING ON HUD'S ROLE IN RENTAL ASSISTANCE:
AN OVERSIGHT AND REVIEW OF LEGISLATIVE PROPOSALS
ON RENT REFORM**

APRIL 25, 2018

INTRODUCTION

Good morning, Chairman Duffy, Ranking Member Cleaver, and members of the subcommittee. I am Richard C. Gentry, the President and Chief Executive Officer of the San Diego Housing Commission, which serves low-income residents in the City of San Diego—the eighth largest city in the nation and second largest city in California. I am honored to be here today to testify about rent reform for the Section 8 Housing Choice Voucher program and the San Diego Housing Commission's (SDHC) rent-reform initiative known as Path to Success.

I began working in San Diego in 2008; however, my experience in affordable housing spans 46 years—beginning with the U.S. Department of Housing and Urban Development (HUD) in 1972. I have served as the CEO of the public housing authorities in Austin, Texas, and Richmond, Virginia, as well as working in the private sector as the Senior Vice President of Asset Management for the National Equity Fund in Chicago, Illinois, the nation's largest nonprofit Low-Income Housing Tax Credit syndicator, and as the Vice President for Public Housing Initiatives at the Local Initiatives Support Corporation (LISC) in Washington, D.C. My opinions today reflect the diversity of my background and the breadth of my experience.

Federal housing programs should be guided by two principles:

- 1) Achieving the greatest benefit of the program for the low-income families that are served;
and
- 2) Maximizing efficiencies in the expenditure of taxpayer funds.

SDHC operates a large Section 8 Housing Choice Voucher program with more than 15,000 households receiving rental assistance, and a small public housing program of 189 rental units. This disparity primarily is the result of a landmark conversion of public housing units into rental housing vouchers, which will be discussed in greater detail later in this presentation. This public housing conversion was beneficial for low-income San Diegans.

Our rent-reform initiative, Path to Success, applies to both the rental assistance and public housing programs. The right types of reforms enhance the effectiveness of these programs.

However, advocacy of two extremes has occurred in the past, both of which would be detrimental to the families we serve through these programs.

One is the traditional practice of only utilizing the percentage of a household's income to determine the amount they pay toward their rent. This hinders rental assistance customers who are able to work (Work-Able) from increasing their income and adds to the inherent challenges these households encounter in their efforts to emerge out of poverty.

The second detrimental extreme is term limits, or restrictions on the length of time that families can receive rental assistance. The arbitrary and capricious nature of such limits penalizes rental assistance families for their circumstances and fails to acknowledge the inability of some households to become financially self-reliant, such as seniors with fixed income, individuals with disabilities, and families experiencing hardships. Moreover, rental assistance term limits without self-sufficiency programs and support do not provide families with opportunities to move up and out of poverty.

San Diego's experience has shown that rent reform—including setting minimum rents and utilizing calculations based on income ranges—effectively encourages rental assistance participants to become more financially self-reliant and provides the support they need to do so.

The San Diego model in our Path to Success initiative exemplifies the type of reasonable, measured rent-reform approach that would benefit the Section 8 Housing Choice Voucher rental assistance program and its participants moving forward.

SECTION 8 HOUSING CHOICE VOUCHERS AND PUBLIC HOUSING: HISTORY

Limiting a household's rent payment amount to a percentage of their income has been part of the rental assistance system since 1969.

The Housing and Community Development Act of 1974 and subsequent revisions to it, along with program rules from HUD, created the Section 8 Housing Choice Voucher rental assistance program.

The Housing and Community Development Amendments to the Omnibus Budget Reconciliation Act of 1981 raised the rent payments in public housing and the Section 8 Housing Choice Voucher program from 25 percent of the household's adjusted income to 30 percent of the household's adjusted income.

Approximately 1.1 million American households live in public housing; however, approximately 3.4 million households receive Federal Section 8 Housing Choice Voucher rental assistance or Project-Based rental assistance, according to HUD.

SDHC – PROVIDING FEDERAL RENTAL ASSISTANCE

Section 8 Housing Choice Voucher rental assistance is SDHC's largest program.

More than 15,000 low-income households in the city of San Diego—including veterans, formerly homeless San Diegans, seniors, individuals with disabilities, and single-parent households—receive Federal rental assistance from SDHC. These households include approximately 36,000 men, women and children. More than half of these households qualify as seniors or individuals with disabilities.

In addition to assisting low-income households to obtain rental housing, SDHC's Housing Choice Voucher program invests millions of dollars in the local economy each year.

In Fiscal Year 2017 (July 1, 2016 – June 30, 2017), SDHC paid \$143.2 million to approximately 5,700 participating landlords in the City of San Diego, who are essential to providing affordable housing to low-income San Diegans.

SDHC engages with private sector landlords to establish more affordable housing opportunities by providing Federal rental assistance.

SDHC partners with HUD to provide the most vulnerable San Diegans with rental assistance to help them locate housing in the competitive, high-cost San Diego rental housing market.

- **Federal Public Housing**

SDHC, including its nonprofit affiliate, currently owns and/or manages more than 3,700 affordable rental housing units in the City of San Diego, which include 189 Federal public housing units.

Among the SDHC-owned units are 1,366 former public housing units for which HUD transferred full ownership and operating authority to SDHC through a landmark agreement on September 10, 2007. This was the largest public housing conversion at the time.

When the former public housing units converted to SDHC ownership, residents were provided with Federal Section 8 Housing Choice Vouchers. They could then use the vouchers at their existing units or take them with them as rental assistance to another rental home of their choice.

This expanded the opportunities for affordable housing to hundreds of additional San Diego families.

Approximately 50 percent of the residents chose to stay at their existing units, and approximately 50 percent moved to other properties, typically to be closer to family or work.

Those residents who used their new Section 8 Housing Choice Voucher rental assistance to move to another property created vacancies in the former public housing units. Fulfilling its commitment to HUD, SDHC rented these vacant units as affordable rental housing to families with income of 80 percent of the San Diego Area Median Income or less. No residents were displaced, and SDHC did not dispose of any of the units.

In addition, SDHC leveraged the equity from this new real estate portfolio to create or preserve 810 additional affordable housing in the City of San Diego through direct acquisitions and public-private partnerships. All of these units will remain affordable for at least 55 years.

MOVING TO WORK

The U.S. government's creation of the "Moving to Work" (MTW) program in 1996 established a significant tool to provide affordable housing opportunities, combining the flexibility to foster innovation with continuing government oversight from HUD. Public housing authorities must submit their proposed new MTW programs to HUD for approval.

MTW provides flexibility and allows public housing agencies to determine localized programs that are the most effective for their communities.

SDHC is one of only 39 public housing agencies, out of 3,400 nationwide, to receive the MTW designation from HUD, which allows flexibility to create innovative, cost-effective approaches to provide housing assistance to low-income families.

The extension of the contracts of MTW agencies, such as SDHC, for 10 more years, through 2028, was approved in the Consolidated Appropriations Act of Fiscal Year 2016 on December 18, 2015.

This Congressional action also will expand the MTW program to an additional 100 public housing agencies across the country. I believe that the MTW program should eventually apply to all public housing agencies other than those identified by HUD as “troubled” to provide them with the structure and flexibility to design programs in their communities.

MTW has been especially significant in the expensive housing markets of California, including San Diego. The MTW program has allowed SDHC to encourage families and reward them for productive activities.

SDHC’s MTW initiatives provide opportunities for Section 8 Housing Choice Voucher rental assistance participants and public housing residents to become more financially self-reliant and improve their housing choices as SDHC achieves efficiencies in the administration of federal funding.

SDHC ACHIEVEMENT ACADEMY

A significant focus of SDHC’s MTW initiatives is that we want to reward Work-Able households for taking steps to move to work. The SDHC Achievement Academy is a critical MTW component to help low-income residents break the cycle of poverty and become more financially self-reliant.

On October 4, 2010, SDHC opened the SDHC Achievement Academy, a learning and resource center and computer lab at SDHC’s headquarters in downtown San Diego. The SDHC Achievement Academy provides programs that emphasize career planning, job skills and personal financial education—at no cost to Section 8 Housing Choice Voucher rental assistance participants and public housing residents. In addition, SDHC Achievement Academy staff known as Work Readiness Specialists are assigned to work with families on a customized plan for educational and/or employment objectives.

In Fiscal Year 2017 (July 1, 2016 – June 30, 2017), 1,346 individuals participated in SDHC Achievement Academy programs.

One of the SDHC Achievement Academy's main programs is Family Self-Sufficiency (FSS). SDHC utilized MTW flexibility to redesign the SDHC Achievement Academy's FSS program to provide enhanced opportunities for families to become more financially self-reliant.

A voluntary, two-year program, FSS provides a variety of courses, including: job training, career planning, and financial literacy education, such as budgeting, saving, establishing good credit, and income tax preparation.

Participants are required to follow a career plan and obtain a job working at least 32 hours per week. FSS is available at no charge to the head of household receiving SDHC Housing Choice Voucher rental assistance and public housing residents.

SDHC Achievement Academy FSS participants are able to earn up to \$10,000 in an interest-bearing escrow account based upon their educational and employment-related accomplishments. Funding for these financial incentives is provided by HUD. FSS program participants may use these funds as they wish when they complete the program.

The average annual income for FSS participants at the start of the program is approximately \$12,000. By the end of the program, the average annual income is \$34,000.

In Fiscal Year 2017 (July 1, 2016 – June 30, 2017), 315 individuals participated in the SDHC Achievement Academy's FSS program, including a single mother with two teenage sons, Griselda, who has received Federal rental assistance from SDHC since 2008..

Overcoming a three-year struggle to find work—with help from the SDHC Achievement Academy—provided Griselda with renewed confidence and hope for the future.

“I'm excited to go to work and do the job that I do,” said Griselda, who was hired in October 2016 as a part-time office clerk for a local nonprofit organization. “I want to do accounting, so I'm looking forward to getting into an accounting department within the company.”

She earned an associate's degree in accounting, but could not find work until she started attending SDHC Achievement Academy workshops in April 2016. She received help with her résumé, job interview skills, and customer service training.

She continues to work toward financial self-reliance, participating in FSS and Power of One, an SDHC Achievement Academy program for single parents that includes a match savings program. Griselda was one of the first graduates of Power of One.

Griselda continues to attend training sessions at the SDHC Achievement Academy to help her with her next steps. She wants to work full time in accounting, hopefully with her current employer — or get a second part-time job in accounting — and go back to school to earn a bachelor's degree.

“I can’t thank the Achievement Academy enough. I didn’t get this kind of help anywhere else,” Griselda said.

PATH TO SUCCESS RENT-REFORM INITIATIVE

Approximately eight months after the SDHC Achievement Academy opened, HUD approved SDHC’s rent-reform initiative, known as Path to Success, on June 21, 2011, in our Fiscal Year 2012 MTW Annual Plan.

Under Path to Success, SDHC identifies Housing Choice Voucher rental assistance participants as Work-Able or Elderly/Disabled.

A household is Work-Able if at least one adult is under 55, not disabled, and not a full-time student between the ages of 18-23. Elderly/Disabled households are those in which all adults are 55 or older, disabled, or a full-time student ages 18 to 23.

With the flexibility provided by MTW, SDHC created the Path to Success initiative to encourage Housing Choice Voucher families to become more financially self-reliant. Path to Success included streamlining the calculations of the portion of the rent that each household pays.

Path to Success modified the method used to determine the monthly rent payment amounts for families that receive rental assistance from SDHC and our public housing residents.

For Elderly/Disabled households with income, the rent payment amount is calculated as 28.5 percent of their adjusted income. There is no minimum monthly rent payment amount for Elderly/Disabled households.

In addition, Path to Success set minimum monthly rent payment amounts for Work-Able participants.

SDHC guides Work-Able families to become more financially self-reliant through enrollment at the SDHC Achievement Academy.

Providing rental assistance to families who are not working requires more federal funds than assisting working families who contribute toward their rent. Under Path to Success, SDHC has seen an 8 percent reduction in our average Housing Assistance Payment: from \$837 to \$773.

The average annual income of all of SDHC’s approximately 6,200 Work-Able rental assistance families in Fiscal Year 2017 was \$23,079. This represented a 25 percent increase in average annual income for Work-Able families since the approval of Path to Success in 2011.

SDHC sees Housing Choice Voucher participants as partners in utilizing limited federal funds to help as many families in need as possible.

- **Outreach Before Implementation**

To prepare our rental assistance families before the implementation of Path to Success, SDHC engaged in extensive outreach.

Targeted letters were sent between June 2011 and October 2012 to more than 5,000 households with different annual income levels, ranging from zero up to \$25,000. In addition, letters were sent to more than 1,000 prospective minimum rent households in March 2013.

SDHC also made targeted phone calls to more than 300 families from June to September 2011, and created a telephone hotline for information about Path to Success. Information also was added to SDHC's website, including a new Path to Success fact sheet.

SDHC's Participant Advisory Committee received presentations about Path to Success in March, June, September and December 2012.

- **Minimum Rents**

Before Path to Success, families were required to pay a minimum of \$50 of their rent.

When the Path to Success initiative was implemented on July 1, 2013, the initial minimum monthly rent payment amounts were based on California's minimum wage of \$8 per hour at the time.

SDHC determined what a Work-Able household could earn working 20 hours a week at minimum wage, and then calculated minimum rent payment amounts that would be approximately 30 percent of that monthly figure.

Two years later, new minimum monthly rent payment amounts were implemented for Work-Able families, effective July 1, 2015:

- Households with one Work-Able person pay a minimum rent of \$300 (up from \$200, set on July 1, 2013); and
- Households with two or more Work-Able individuals pay a minimum rent of \$500 (up from \$350, set on July 1, 2013).

In SDHC's Fiscal Year 2019 MTW Annual Plan, which has been submitted to HUD and is pending approval, we propose further adjustments to the minimum rents based on increases in California's minimum wage.

On January 1, 2020, California's minimum wage for employers with 26 or more employees increases to \$13 per hour. The mandatory minimum wage for the State will increase to \$15 an hour by 2022.

SDHC proposes raising the minimum rents to \$400 for a household with one Work-Able adult and \$650 for a household with two or more Work-Able adults, effective January 1, 2020.

If a household includes two Work-Able adults, and each of them works part-time for 20 hours a week, their combined total monthly income at the current minimum wage in the City of San Diego of \$11.50 per hour is approximately \$1,993.

The current minimum rent for a household with two Work-Able adults is \$500, which represents about 25 percent of their monthly income.

When the minimum wage increases to \$13 dollars per hour, the combined income for these two adults—each working part-time—would rise to about \$2,253. The proposed minimum rent of \$650 dollars is 28.8 percent of their income.

– Elderly/Disabled Families:

The Path to Success minimum rent payment amounts do not apply to Elderly/Disabled households. The minimum monthly rent payment amount for an Elderly/Disabled family is \$0. For Elderly/Disabled households with income, the rent payment amount is calculated as 28.5 percent of their adjusted income.

• **Income Ranges**

To allow Work-Able families to increase their income without being penalized, adjusted annual income is separated into income ranges. The lower edge of the range is used to calculate the family's rent payment at 30 percent of the adjusted monthly income. For example, the monthly rent payment amount for any family with adjusted annual income between \$20,000 and \$24,999 will be calculated using \$20,000 as their income.

Work-Able families pay either the minimum monthly rent payment amount, as described in the previous section, or the rent payment amount based on the family's annual income, whichever is greater.

Below is an illustrative table of the current income ranges and rent portions for a Work-Able household under Path to Success. This table does not apply to families that are Elderly/Disabled or are on an approved hardship exemption.

Path to Success	
Tiered Rent Table: Current Design	
Annual Income Bands	Rent Portion
\$0 - \$999	Minimum Rents Apply*
\$1,000 - \$1,999	Minimum Rents Apply*
\$2,000 - \$2,999	Minimum Rents Apply*
\$3,000 - \$3,999	Minimum Rents Apply*
\$4,000 - \$4,999	Minimum Rents Apply*
\$5,000 - \$5,999	Minimum Rents Apply*
\$6,000 - \$6,999	Minimum Rents Apply*
\$7,000 - \$7,999	Minimum Rents Apply*
\$8,000 - \$8,999	Minimum Rents Apply*
\$9,000 - \$9,999	Minimum Rents Apply*
\$10,000 - \$12,499	Minimum Rents Apply*
\$12,500 - \$14,999	Minimum Rents Apply*
\$15,000 - \$17,499	Minimum Rents Apply*
\$17,500 - \$19,999	Minimum Rents Apply*
\$20,000 - \$24,999	Minimum Rents Apply*
\$25,000 - \$29,999	\$625
\$30,000 - \$34,999	\$750
\$35,000 - \$39,999	\$875
\$40,000 - \$44,999	\$1,000
\$45,000 - \$49,999	\$1,125
\$50,000 - \$54,999	\$1,250

**Minimum rents are \$300 for a household with one Work-Able adult and \$500 for a household with two or more Work-Able adults. Work-Able families pay either the minimum monthly rent payment amount or the rent payment amount based on the family's annual income, whichever is greater.*

Currently, the income ranges are in increments of \$1,000; \$2,500; or \$5,000 depending on the level of income. In our Fiscal Year 2019 MTW Annual Plan, SDHC proposes making all of the income ranges \$5,000. Below is an illustrative table effective January 1, 2020. This table does not apply to families that are Elderly/Disabled or are on an approved hardship exemption.

Path to Success	
Tiered Rent Table: Future Design	
Annual Income Bands	Rent Portion
\$0 - \$4,999	Minimum Rents Apply*
\$5,000 - \$9,999	Minimum Rents Apply*
\$10,000 - \$14,999	Minimum Rents Apply*
\$15,000 - \$19,999	Minimum Rents Apply*
\$20,000 - \$24,999	Minimum Rents Apply*
\$25,000 - \$29,999	Minimum Rents Apply*
\$30,000 - \$34,999	\$750
\$35,000 - \$39,999	\$875
\$40,000 - \$44,999	\$1,000
\$45,000 - \$49,999	\$1,125
\$50,000 - \$54,999	\$1,250

**Minimum rents will be \$400 for a household with one Work-Able adult and \$650 for a household with two or more Work-Able adults. Work-Able families pay either the minimum monthly rent payment amount or the rent payment amount based on the family's annual income, whichever is greater.*

Additional elements of Path to Success, such as utility allowances, also may impact the portion of the rent that each individual household may pay. These factors are not reflected on the tables above.

Families with income that is sufficient to pay their entire rent portion without any rental assistance from SDHC are transitioned from the Housing Choice Voucher program according to Federal regulations.

- **Biennial Recertification**

As a complement to the Path to Success initiative, SDHC also changed the schedule for recertification of rental assistance families' income and household composition. They now occur every two years (biennial) for most SDHC rental assistance programs.

Households benefit from this reform because any increase in income is not captured until the second year. This provides families with additional time to build savings accounts, increase skill levels to become more marketable, complete secondary education or job training programs, or obtain employment.

The biennial recertification also produces additional administrative efficiencies and generates cost savings for SDHC.

Generally, Federal regulations (24 CFR 882.515) require public housing authorities to re-examine the income and composition of Work-Able rental assistance households at least once a year. An "interim re-examination" occurs in less than a year if a change in income or the makeup of the family occurs before the scheduled annual re-examination.

These regulations discourage rental assistance households from working toward financial self-reliance because increases in their income require immediate re-examination, which may increase the portion of the total contract rent that they are required to pay.

- **Hardship Exemptions**

SDHC's Path to Success initiative also includes temporary hardship exemptions, with provisions that help families work toward financial self-reliance.

If a family's income is reduced to zero through no fault of their own, their portion of the rent will be zero for up to six months.

An internal agency Hardship Review Committee reviews all hardship requests. To be considered for a hardship exemption from the minimum rents under Path to Success:

- The family’s shelter burden must be greater than the acceptable level as calculated by SDHC.
- The family must either be Elderly/Disabled or consist of a single Work-Able adult with one or more dependents.
- The family is required to sign a document consenting to participate in SDHC Achievement Academy work-readiness services.

Gross income before exclusions is considered.

A Hardship Rent Table is used to determine the family’s portion of the rent during the exemption period:

Hardship Rent Table	
Annual Income	Hardship Rent
\$0 - \$2499	\$0
\$2,500 - \$4,999	\$55
\$5,000 - \$7,499	\$150
\$7,500 - \$9,999	\$245

If a hardship exemption is approved, Work-Able households are required to participate in SDHC Achievement Academy “work readiness” programs for the duration of the hardship period.

Work-Able families may only move to another jurisdiction with their rental assistance if they request and receive an exception. Exceptions include: employment opportunities, education, safety reasons, a medical/disability need, or other exceptions determined on a case-by-case basis. This policy does not affect Elderly/Disabled families.

SDHC approved 538 Path to Success hardship requests between the start of the initiative on July 1, 2013, and the end of Fiscal Year 2017 on June 30, 2017:

Path to Success Hardships	
Type	Approved
Comprehensive Hardship	85
Zero Income Hardship	80
Portability Hardship	373
Total	538

On August 15, 2013, Leslie attended her first orientation at the SDHC Achievement Academy after she received a hardship exemption from the minimum rents under SDHC's Path to Success program.

Often bringing her breakfast, lunch or dinner with her, Leslie attended job fairs and workshops at the SDHC Achievement Academy for financial education, resume writing, interview skills and computer training.

Within 30 days, she had landed a job with a parking company.

She also completed her General Education Development through the High School Diploma Program at Educational Cultural Complex, which operates off-campus programs through San Diego City College.

On July 31, 2015, she received her certificate from the Culinary Arts and Bakeshop Program from San Diego Continuing Education. She began studying general education and culinary arts at Grossmont College in August 2015.

She graduated from the Family Self-Sufficiency program in November 2016 and is grateful to SDHC.

“From the CEO to the security guard, it helped me to better myself—self-esteem most of all,” she said.

SAVINGS SUPPORT PROGRAMS

The savings achieved through Path to Success, the biennial recertification process, and other MTW initiatives are needed to fund the creation of workforce programs at the SDHC Achievement Academy to help rental assistance families on their path toward financial self-reliance. These funds also support increases to the payment standards for SDHC's rental assistance households.

In addition, SDHC has re-invested savings toward the creation of permanent supportive housing to address the homelessness crisis in the City of San Diego.

In December 2017, SDHC directed \$10 million to the purchase of a San Diego hotel, Quality Inn, which will create 91 permanent supportive housing units for San Diegans experiencing homelessness.

This acquisition occurred approximately 16 months after SDHC completed its award-winning rehabilitation of the historic Hotel Churchill in downtown San Diego to create 72 permanent supportive housing units—56 units for homeless Veterans, eight units for transitional age youth ages 18-25, and eight units for adults exiting the corrections system who also need supportive

services. SDHC invested \$9.2 million in MTW funds toward the \$20.6 million rehabilitation of Hotel Churchill.

Approximately 15 months before the completion of Hotel Churchill, SDHC also invested \$15 million to purchase a 120-unit apartment complex for seniors in the Clairemont community of the City of San Diego on May 1, 2015. With SDHC's acquisition, all of the units became affordable rental housing for low-income seniors, of which 44 units were set aside for homeless seniors, with rental assistance provided by vouchers that SDHC provided.

CONCLUSION

To help low-income families move out of poverty, it is essential for local agencies to be provided with the flexibility to choose the options that show the greatest success in their communities. As local agencies make these decisions, they are held accountable by HUD and local governing bodies, such as the SDHC Board of Commissioners and the Housing Authority of the City of San Diego.

The positive results achieved with the Path to Success initiative in San Diego demonstrate the potential impact of rent reform initiatives, which enhance the effectiveness the Section 8 Housing Choice Voucher program. Empowering and equipping rental assistance customers to increase their income without the negative repercussion of immediate increases in their rent payment amount fosters financial self-reliance. This, in turn, creates opportunities to assist additional low-income families.