AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

S. HRG. 114–511

OVERSIGHT OF THE HUD INSPECTION PROCESS

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING, TRANSPORTATION, AND COMMUNITY DEVELOPMENT

OF THE

COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

ONE HUNDRED FOURTEENTH CONGRESS

SECOND SESSION

ON

EXPLORING THE HUD INSPECTION PROCESS, FOCUSING SPECIFICALLY ON PROJECT-BASED SECTION 8 HOUSING INSPECTIONS, IN WHICH RESIDENTS' DEPLORABLE LIVING CONDITIONS HAVE BEEN EXPOSED IN FLORIDA AND OTHER STATES, AND EXPLORING SOLUTIONS FOR THESE ISSUES

SEPTEMBER 22, 2016

Printed for the use of the Committee on Banking, Housing, and Urban Affairs

Available at: http://www.fdsys.gov/

U.S. GOVERNMENT PUBLISHING OFFICE

23–011 PDF WASHINGTON : 2017

For sale by the Superintendent of Documents, U.S. Government Publishing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

RICHARD C. SHELBY, Alabama, *Chairman*

MIKE CRAPO, Idaho
BOB CORKER, Tennessee
DAVID VITTER, Louisiana
PATRICK J. TOOMEY, Pennsylvania
MARK KIRK, Illinois
DEAN HELLER, Nevada
TIM SCOTT, South Carolina
BEN SASSE, Nebraska
TOM COTTON, Arkansas
MIKE ROUNDS, South Dakota
JERRY MORAN, Kansas

SHERROD BROWN, Ohio
JACK REED, Rhode Island
CHARLES E. SCHUMER, New York
ROBERT MENENDEZ, New Jersey
JON TESTER, Montana
MARK R. WARNER, Virginia
JEFF MERKLEY, Oregon
ELIZABETH WARREN, Massachusetts
HEIDI HEITKAMP, North Dakota
JOE DONNELLY, Indiana

WILLIAM D. DUHNKE III, *Staff Director and Counsel*
MARK POWDEN, *Democratic Staff Director*

DAWN RATLIFF, *Chief Clerk*
TROY CORNELL, *Hearing Clerk*
SHELVIN SIMMONS, *IT Director*
JIM CROWELL, *Editor*

SUBCOMMITTEE ON HOUSING, TRANSPORTATION, AND COMMUNITY DEVELOPMENT

TIM SCOTT, South Carolina, *Chairman*
ROBERT MENENDEZ, New Jersey, *Ranking Democratic Member*

MIKE CRAPO, Idaho
DEAN HELLER, Nevada
JERRY MORAN, Kansas
BOB CORKER, Tennessee
TOM COTTON, Arkansas
MIKE ROUNDS, South Dakota
DAVID VITTER, Louisiana

JACK REED, Rhode Island
CHARLES E. SCHUMER, New York
JON TESTER, Montana
JEFF MERKLEY, Oregon
HEIDI HEITKAMP, North Dakota
JOE DONNELLY, Indiana

WILLIAM GARDNER, *Subcommittee Staff Director*
REBECCA SCHATZ, *Democratic Subcommittee Staff Director*

C O N T E N T S

THURSDAY, SEPTEMBER 22, 2016

	Page
Opening statement of Chairman Scott	1
Opening statements, comments, or prepared statements of:	
Senator Menendez	2
Senator Corker	3
Senator Tester	4

WITNESSES

Bill Nelson, a U.S. Senator from the State of Florida	4
Prepared statement	23
Marco Rubio, a U.S. Senator from the State of Florida	5
Prepared statement	24
Edgar Olsen, Professor of Economics and Public Policy, University of Virginia Batten School of Leadership and Public Policy	8
Prepared statement	25
Tracy Grant, President, Eureka Gardens Tenants' Association, Jacksonville, Florida	10
Prepared statement	34
Major Josh Lewis, Riviera Beach Police Department, Riviera Beach, Florida	11
Prepared statement	36
Vincent F. O'Donnell, Affordable Housing Consultant	13
Prepared statement	38

Additional Material Supplied for the Record

Pictures of damage at HUD Section 8 properties, Global Mission Foundation and Windsor Cove, submitted by Chairman Scott	43

OVERSIGHT OF THE HUD INSPECTION PROCESS

THURSDAY, SEPTEMBER 22, 2016

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
SUBCOMMITTEE ON HOUSING, TRANSPORTATION, AND
COMMUNITY DEVELOPMENT
Washington, DC.

The Subcommittee met at 10 a.m., in room SD–538, Dirksen Senate Office Building, Hon. Tim Scott, Chairman of the Subcommittee, presiding.

OPENING STATEMENT OF CHAIRMAN TIM SCOTT

Senator SCOTT. Good morning to everyone. Thanks for being here. This Committee will come to order.

Today we will learn about the HUD inspection process, specifically at project-based Section 8 housing. Witnesses will testify about their experiences with the HUD inspection process and, hopefully, suggest solutions to prevent these types of deplorable living conditions for residents in the future.

We have two very special guests with us this morning. One is here, actually. Both of them are here. We have my colleagues from the State of Florida, Senator Bill Nelson and Senator Marco Rubio, who both represent the State of Florida here in the U.S. Senate.

Our second panel will have witnesses including Ms. Tracy Grant, President of The Eureka Garden Tenants' Association in Jacksonville, Florida, also, I think, a home girl from Charleston, South Carolina. Go St. Andrews Rocks, who I used to play in football. I will not say the outcome, just to save her the embarrassment.

Ms. Grant is here to give testimony on her first-hand experience as a resident of Global Mission Foundation-owned properties.

We will also hear from Major Josh Lewis of the Riviera Beach Police Department—thank you for being here, sir—in Riviera Beach, Florida. Major Lewis is in charge of code enforcement for the GMF property in Riviera Beach.

Finally, we will receive testimony from Dr. Edgar Olsen, who is also here with us. Dr. Olsen is a Professor of Economics and Public Policy at the Frank Batten School of Leadership and Public Policy at the University of Virginia. He has been a postdoctoral fellow at Indiana University, an economist at the RAND Corporation, a project associate in the Institute for Research on Poverty, and a visiting scholar at the U.S. Department of Housing and Urban Development. Dr. Olsen has been a consultant to HUD during six Administrations.

It deserves being pointed out that the title of today's hearing is "Oversight of the HUD Inspection Process," yet clearly missing is anyone from HUD. Not a single employee of HUD could make the time to come inform and educate us on why these deplorable conditions are the way they are. After several attempts from my office, after weeks of asking them to come, out of their 8,400 employees, they cannot spare a single individual to be here this morning. A $32 billion budget, located—many of those employees located here in DC, not a single one of them could make it. I actually have email confirmation of the conversation that my staff had, asking them to come, giving them time to figure it out, but they are not here.

I first learned about the issues at Eureka Gardens Apartments when my friend, Marco Rubio, sent a letter to the Chair and the Ranking Member of the Senate Banking Committee, requesting a hearing on the matter. After digging into the issue, I learned that there was widespread neglect at these properties and that many residents were living in unsafe conditions. Residents had to be hospitalized at some units. Frankly, this is unacceptable.

I want to show a quick video of the definition of deplorable conditions.

[Video played.]

Senator SCOTT. Here is my question. How can we allow these living conditions to persist? How is it that not a single employee at HUD would make the time to come out and explain what is not happening? Should we not care about the living conditions of poor folks in this Nation? Should we not take greater advantage of the opportunity to help all of us understand and appreciate what is happening or what is not happening? Thank goodness Senator Nelson and Senator Rubio have brought a big, bright light to these deplorable conditions.

I am disappointed in HUD. I cannot believe the conditions that Global Ministries allows at their properties, but I am thankful for Senators who care enough about every one of their citizens to be here this morning.

STATEMENT OF SENATOR ROBERT MENENDEZ

Senator MENENDEZ. Thank you, Mr. Chairman, for holding this hearing. I want to thank our two distinguished colleagues for bringing this to light and driving the opportunity for the Committee to look at the issues affecting not only this particular housing community in Florida but across the country, and I appreciate the witnesses who have come to join us today.

In my home State of New Jersey, like many other States across the country, it is facing a two-fold problem of an aging housing inventory and an incredibly tight rental market that leaves far too many families without an affordable place to call home. In fact, nearly 65 percent of New Jersey's housing stock was built before 1975. Add to that the fact that a minimum-wage earner in New Jersey, at $8.38 per hour, would have to work an astounding 105 hours per week to simply afford a modest, one-bedroom apartment at fair market rent, and you have got the making of an affordability crisis on your hands.

Our affordable housing stock is one of the most valuable resources, and for the approximately 1.2 million households that benefit from project-based rental assistance—who are merely seniors, families with children, and people with disabilities—these units can be opportunity creators. We know that when we see better outcomes for low-income and extremely low-income families, the elderly, people with disabilities, when they have sustained access to safe and affordable housing in areas rich with employment opportunities, educational centers, and transportation hubs, and project-based assistance is a critical element of this equation. As such, we must be thoughtful in how we address issues impacting tenants and in the steps we take to preserve affordable housing inventory.

Now let me take a step back for a moment and address the issues in Florida, which initially brought this hearing to the Committee. Let me be clear. There should be no place in our affordable housing programs for dishonest and duplicitous landlords who fail to meet the most basic duty to their residents—providing them with decent, safe, and sanitary homes. Homes, after all, are the place that we go to when we are born, it is where we are nurtured as we grow up, it is where we spend good and bad times, it is when we ultimately leave, when we move on in life and then start a new home. And so the very essence of home, whether it be by ownership or whether it be by rent, is an incredibly important concept in our country, and that home should be nurturing and the environment should be safe, clean, and affordable.

So, Ms. Grant, I want to thank you for your willingness to share your difficult story with us here today, and those of other tenants. It is critical for the Committee to hear experiences of tenants, and believe when I say that it informs our work. It has, for me, as a Member of this Committee for quite some time.

As the saying goes, when Members of Congress feel the heat at home, we see the light in Washington. So Congress relies on our constituents—so, too, should HUD—and landlords rely on their tenants to bring issues to light and inform solutions.

So today as we are confronting this issue, and hopefully putting a garish light on it, and by doing so improving the lives of the tenants in this particular location, I hope that it can broaden that light as it relates to the processes that we engage, to ensure that the type of housing we want to see is realized.

I look forward to hearing from Ms. Grant on her experience, from Mr. O'Donnell on how landlords and HUD can be better equipped to effectively respond to tenant and property needs, and I think, in addition, it is critical that we examine HUD's role in responding to troubled properties, how we can ensure tenants have access to high-opportunity neighborhoods, and are not displaced when landlords do not hold up their end of the bargain, and how best to preserve our units of affordable housing.

I look forward to the testimony. Thank you, Mr. Chairman.

Senator SCOTT. Thank you. Senator Corker.

STATEMENT OF SENATOR BOB CORKER

Senator CORKER. I will be very brief. I know we have distinguished panels before us.

I want to thank you, Senator Scott, and Senator Menendez for causing this hearing to take place. I know each of us are so busy here that many times we do not know much about each other's paths, but I likely would not be a United States Senator today had I not been aware of these types of problems in my own community, and as a private citizen led a very large effort to try to make sure that Chattanoogans had decent, fit, and affordable housing.

And I have seen, as you have, as all of us have, some of the deplorable conditions that people live in, and Senator Menendez, your comments about home, it is when you look at yourself and maybe the way you were able to go through your own high school years, and others, and you see other young people living in conditions that really are not fit for human beings, it causes you to rise up and want to do something about it, and again, I thank you for putting a light on this issue.

I especially thank Senators Nelson and Rubio for highlighting this to the Nation, and I think you know the landlord in concern also had some facilities in Tennessee, and even though HUD has been nonresponsive today, in having a witness, I will say they responded fairly quickly to some of the conditions that we had there that would not have been known, really, publicly, without the efforts of the two of you. So I thank you very much.

It actually caused us to personally go inspect some other units that we have been concerned about in other places in the State. And so, therefore, again I thank you. I appreciate you guys really shining the light, as has been mentioned by the Chairman, on this issue, and I look forward to reviewing the legislation that you are proposing.

So, again, thank you so much for bringing this to the Nation's attention and hopefully helping us provide a much better solution for oversights, especially with landlords—I mean, some of these landlords are—some of them are obviously good, but, you know, so many of them are just total absentee, have no regard for the people who live in these various facilities, and obviously that has got to change. So thank you.

Senator SCOTT. Thank you, Senator Corker. Senator Tester.

STATEMENT OF SENATOR JON TESTER

Senator TESTER. I just echo the remarks of Senator Corker and thank you and Senator Menendez for calling this hearing.

I do not care if you live in Montana or New Jersey or anywhere in between, affordable housing is a big, big, big issue, and making sure that the housing is livable is critical, and transparency and oversight is huge, so thank you for having this hearing.

Senator SCOTT. Yes, sir. Senator Nelson.

STATEMENT OF BILL NELSON, A U.S. SENATOR FROM THE STATE OF FLORIDA

Senator NELSON. Mr. Chairman, I appreciate you expressing the outrage that both of us feel as we visited these places. I also want to say what Senator Corker said, that HUD did respond to us but it is totally unacceptable that they would not accept your invitation of this Committee, and I think you ought to consider a subpoena to haul them in here.

For example, why was it that in the complex called Windsor Cove, that Senator Rubio and I visited, why was it that when we saw those conditions that you saw amply displayed in that Channel 9 clip, as well as the Channel 4 clip in Jacksonville, why was it that just a few months earlier they had had an inspector, and out of a grade of 100 he gave them 91? And when we raised Cain they had another inspector come back and he gave them a grade of 48.

And then they appealed that, and then it takes more months, so that the residents had to wait 10 months for HUD to get it right, and then have that new inspection that ultimately got—they got some relief, all the time with intimidation that if you go and blow the whistle, we are going to evict you from the apartment.

Now that is the atmosphere, and I am glad the Senator from Tennessee is here, because that particular outfit that has apartments in a number of States—they have a good deal of concentration in Florida; they have about 16 of them in Florida—they are located in Tennessee.

Now, the bright break in the clouds is—for this particular situation, is that HUD is facilitating a sale but they are in a 60-day due diligence period with an outfit from Ohio that has a lot more apartments, and, therefore, is integrated with their own construction company, their own management company, *et cetera.*

But what about the inspections? Why did HUD have such a crazy system that was not reflective of the reality that we saw when we stepped on the squishy, water-filled carpets, and saw the mold on the ceiling by the vents? These are not conditions that people ought to be living in, and you saw it in those clips.

Now, what we are doing is introducing the Housing Accountability Act to remove the overdependence on unscrupulous managers and faulty inspections, so that HUD has a better idea of what our Federal taxpayer money is doing, to try to help people have a decent place to live. I will not go through the legislation. You will have it explained in detail. It codifies, in law, what are some regulations. It establishes a process for independent contract examinations, so that you will not have a 91 out of 100 as a score on deplorable living conditions. And it will create a new penalty for the owners who fail to maintain the safe and secure environment, as Senator Menendez says, that is a home environment that ought to be a place for security and safety.

We certainly appreciate you having this hearing to bring to light these things.

Senator SCOTT. Thank you, Senator Nelson. Senator Rubio.

STATEMENT OF MARCO RUBIO, A U.S. SENATOR FROM THE STATE OF FLORIDA

Senator RUBIO. Thank you. Thank you, Mr. Chairman. Thank you all for holding this hearing on this important issue.

So the central mission of HUD is to provide safe and sanitary conditions for people receiving housing assistance, and so I think we are all deeply disturbed to see taxpayer dollars being wasted like this, and disappointing that HUD has failed to provide a witness here today. I think what you will learn as you look into this deeper is, in addition to perhaps some negligence on the part of individuals at HUD, and certainly the blame that falls in the

hands of these slum lords that own and operate these buildings, we have a process that is broken, and I will describe that in detail in a moment.

I do, again, want to thank your two witnesses that are going to be testifying on the second panel, Ms. Tracy Grant and Major Josh Lewis. Both of them have done much to help Florida and the entire country through the work—through their work to make these conditions known. We would not be having these hearings here today, for example, if Ms. Grant had not come forward, and I want to thank them for taking the time to travel here and testify before the Committee.

I became involved in this situation about a year ago, when the tenants of Eureka Gardens took their case to the public, and these tenants bravely made their voices heard, even as they faced the threat of eviction from their landlord, a landlord by the name of Global Ministries Foundation. Since then, residents at Global Ministries Foundation properties, and at derelict Section 8 housing properties around the State, have also spoken of their troubles.

And I want to leave this on the record without any doubt. Global Ministries Foundation are slum lords. They operate these facilities at the bare minimum. They take money from the American taxpayer and they spend as little as possible on maintenance, and I invite you to look at their financials so you can see how much money they pay themselves and the people that work around them, including many family members of the individual at the head of this organization.

When I visited Eureka Gardens in Jacksonville I saw crumbling staircases, exposed electrical wires, boarded-up windows that would trap a child inside if there was a fire. I saw an apartment that had not been painted in 13 years. I saw pieces of wood with exposed nails put up in place of a door, in a unit that had small children living in it. This was evident even after Global Ministries rushed crews to the property to make cosmetic repairs just 48 hours before I arrived. The scene was unreal. As we arrived, they had set up banners, all these work crews around, just to kind of make it look like they were doing things, but in the end, as soon as we left, the crews left, and the work they did was largely cosmetic.

I spoke with tenants who had been through a lot over the last few years and heard stories like some of the ones you will hear today from Ms. Grant, stories of neglect and crime and bureaucratic indifference from HUD.

When Senator Nelson and I visited Windsor Cove Apartments in Orlando, another GMF property, as he said we saw standing water in apartments, and damaged roofs, collapsed ceilings, and we breathed air that reeked of mold. We spoke with residents who lived there for multiple years now, trapped in a facility whose conditions no one should have to endure.

A couple of weeks ago I visited Stonybrook Apartments in Riviera Beach, and I want to—this is hard for me to say because the other two places were so bad, but what I saw at Stonybrook is even worse. In addition to all the other things we just talked about, as you walked through the courtyard you will see little nickel bags and dime bags of drugs, consumed drugs, all over the place, more

common than any other garbage that might be laying around, in the courtyard of that building.

And unwillingness to repair these properties is unfortunately par for the course for Global Ministries. They willfully neglect the well-being of their tenants, as you will hear from Major Lewis testifying today.

These are the three GMF properties I visited in the State of Florida. In each case, I am sad to say that HUD has enabled fraud and abuse to continue, all while taxpayer money continues to flow into the pockets of these slum lords. Bureaucratic red tape, miscommunication, a lack of urgency have plagued the administrative response.

But nothing displays how broken this program is better than HUD's own inspection process. The passing score for a HUD inspection is 60 out of 100. If a property scores above this threshold, HUD gives it the stamp of approval, declaring the conditions are decent, safe, and sanitary, an approval that traps tenants at the property and keeps money flowing to the landlord.

What I have discovered in Florida, however, is that HUD has compromised the integrity of these standards. Last year, the inspection at Windsor Cove, which we visited, they gave them a passing score of 90 out of 100. The next inspection, which happened to occur a week after Senator Nelson and I visited the property, gave it a failing score of 48. That inspection found a projected 86 life-threatening deficiencies on the property. From one score to the next, this kind of inconsistency is beyond belief.

Eureka Gardens received a score of 80 out of 100 during the summer inspection that occurred just before the tenants came forward. After months of back-and-forth repairs, hospitalizations from gas leaks, alleged lead poisoning, and incessant mold outbreaks, HUD came back with a follow-up inspection and still passed them, but this time 62 out of 100. Can you imagine—62 out of 100 in the facility that you just saw images of a moment ago.

Right after that inspection, in a letter sent to GMF after visiting the property, the Deputy Assistant Secretary for Multifamily Housing wrote that HUD officials do not believe the property would currently pass another REAC inspection, despite the fact that an inspection had just happened barely a month before.

These slum lords cause the problems but HUD has enabled it, and the twin vices that so often afflict massive Federal safety net programs, bureaucracy and corruption, have prevented the kind of action necessary to protect the tenants and allow this crisis to go on for far too long. So that is why we introduced and passed three amendments to the HUD legislation that we considered back in May, and Senator Nelson and I have also introduced legislation that would enact a tenant survey, in order to better identify problems in properties like GMF's.

The problems at these properties are not limited to the State of Florida. These slum lords, GMF, they own properties in Alabama, Indiana, Louisiana, North Carolina, New York, Georgia, and Tennessee, and similarly bad conditions have led to Federal investigations because of those properties. They own over 5,000 taxpayer-funded units across the Nation. And beyond GMF, if HUD is falsely certifying the living conditions at these many properties

for one organization, then it is probably doing the same for many other entities we have yet to hear about.

So I look forward to hearing from today's witnesses about the effects of GMF's fraud and HUD's neglect, and I hope we can continue working together, across party lines—this is not a partisan issue—to investigate GMF, and to pass legislation to fix HUD's faulty inspection process.

Thank you.

Senator SCOTT. Thank you, Senator Rubio.

We will now go to the second panel, as our good colleagues clear the way.

[Pause.]

Senator SCOTT. Dr. Olsen, do you want to start?

STATEMENT OF EDGAR OLSEN, PROFESSOR OF ECONOMICS AND PUBLIC POLICY, UNIVERSITY OF VIRGINIA BATTEN SCHOOL OF LEADERSHIP AND PUBLIC POLICY

Mr. OLSEN. OK. Thank you, Senator Scott.

I am delighted to be here today to discuss what should be done about the poor condition of privately owned, subsidized housing projects, like those observed by Senators Rubio and Nelson, and the disconnect between their observations and what is reported in HUD's system for monitoring the condition of these units. Although I did not observe the units directly until right now, and I am not intimately familiar with HUD's monitoring system, I hope that I will be able to contribute a little to the discussion based on my knowledge of the programs involved and the evidence on their performance. I have studied low-income housing assistance for more than 40 years.

I will cut to the chase. What Senator Rubio and Senator Nelson have uncovered is a perfect illustration of what the systematic evidence shows about the performance of the Section 8 new construction program, and other programs that subsidize the construction of privately owned, low-income housing projects. The total cost of providing this housing, that is, what the tenants pay and all of the public subsidies, greatly exceeds the market rents of the units provided. The ultimate solution to this problem is to phaseout programs of this type.

However, we also need to deal with the existing projects to ensure that they provide housing that meets the program's minimum standards. The units observed did not meet these standards, obviously, and HUD's monitoring system said that they did.

I will describe the program's incentives for poor maintenance and then talk about what should and should not be done about it.

In exchange for substantial subsidies, the developers of privately owned projects agreed to provide housing meeting certain standards, at restricted rents, to eligible households for a specified number of years. HUD has a system for monitoring the condition of subsidized units. The Senators' observations suggest that this system is not working at all well. Senator Rubio has already shown that the units in a number of projects owned by a particular organization that operates many projects are in deplorable condition. You should not assume that this problem is limited to this one owner.

The structure of the program incentivizes poor maintenance. When built, the units tended to be of reasonable quality because the projects received development subsidies that were proportional to the cost of building them. When new, they were terrific bargains for the tenants. However, the landlords have no incentive to maintain them except for dealing with problems that would severely damage the structure. It takes many years of poor maintenance for units to deteriorate so much that some tenants are unwilling to pay the 30 percent of their modest incomes to live in them. Until that happens, the owners can retain their tenants, even though they spend a little or nothing on maintenance.

The monthly subsidy that owners get from HUD does not depend on the level of maintenance, and it is automatically adjusted upward each year to account for inflation. So owners get the same subsidy in real terms, year after year, even though the housing provided gets worse and worse. With this setup, the owners maximize profits by skimping on maintenance.

This problem is exacerbated by the existence of the low-income housing tax credit program, that provides large additional subsidies for the renovation of many of these projects. This restarts the process of under-maintenance and excessive profits.

As long as the units meet the program's minimum housing standards, the owners have honored their commitment and are legally entitled to receive the promised subsidies. HUD is responsible for the inspection of units in these properties, on a regular basis, to ensure that they meet the standards. If violations are detected, owners are given a certain amount of time to correct them. If they fail to do it, HUD is supposed to terminate the contract, stop sending the monthly subsidy to the owner, and provide the tenants with housing vouchers.

On my understanding of the facts, that did not happen for the projects inspected by Senator Rubio, because HUD's monitoring system said that the units met the program's minimum standards.

The question is what to do about Senator Rubio's discovery. The first step is obviously to deal promptly with the particular projects that have already been observed. The second is to determine whether these are isolated incidents or widespread. Given what I have said, I would not be surprised if they were widespread.

Senator Rubio and Senator Nelson have already done, I think, what is needed to deal with these particular matters. What should not be done, in response to Senator Rubio's discovery, is to provide additional subsidies to the owners of these projects to renovate them. The evidence indicates that this is a highly cost-ineffective method for delivering housing assistance.

Indeed, we should go further and not renew the contracts on these projects at the end of their use agreements but instead give their occupants housing vouchers. The evidence indicates that amounts well above market rents are paid when government renews use agreements with owners of privately owned subsidized projects. In contrast, market rents are paid for units that are occupied by voucher recipients. If the owners of projects are providing good housing for the money at the end of the use agreements, their tenant will want to use their vouchers to remain in their current

units. Otherwise, the owners should not be in the business of providing housing.

Senator SCOTT. Ms. Grant.

STATEMENT OF TRACY GRANT, PRESIDENT, EUREKA GARDENS TENANTS' ASSOCIATION, JACKSONVILLE, FLORIDA

Ms. GRANT. Good morning. Thank you, Chairman Scott and Senator Rubio, for inviting me.

I came from Charleston, South Carolina, and I moved to Jacksonville, or back to Jacksonville, in 2010—August, 2010. I went to apply for an apartment in Eureka Gardens at the beginning of September. I got approved and got my keys on September 24 of 2010.

In the process of even trying to get the apartment, I went through a lot of stumbling blocks. It was—your birth certificate was not a proper birth certificate because it was not from Florida and it was too small, so it did not have all the information they were looking for, like who my mother was, and my father was. And they wanted a big copy, and I told them, I said, "No. this is a legitimate birth certificate," and they had—there was someone else in the office that knew what South Carolina birth certificates—the smaller version—looked like.

So I went through that issue with them, and then it was the issue—when I told them I did not come in there with any income, because I was told it was income-based, so I did not have to pay a light bill, I did not have to pay a gas bill, and I did not have money to pay rent. And I had to get a letter from my cousin saying that, you know, she was helping me pay my rent.

So those three things, right off, just threw me. I knew something was wrong. I knew that there was a problem but I did not know how far or how much of a problem it was.

So I moved in October—the first weekend in October of 2010, and that night that I actually moved in there was a gunshot by my window, that night. Me and my kids slept on the hard cement floor, and this was not what I was looking for.

Needless to say, it persisted. Things just started to unfold. When I really went through my apartment, the walk-through was even horrible because the floors had still looked dirty, like they did not take up the floors and redo them. They waxed over whatever was on the floor. They just waxed over it. When I moved in, the kitchen sink, right behind the faucet, was moldy, and in the bathroom there was mold.

Then when my kids and I started to take a bath, water just started coming from the bathtub and I could not figure out where it was coming from. It was not coming over the bathtub. It was not coming from under or over the toilet. It just—water just appeared, not realizing that the water was actually going into the bedroom that I was sleeping in, in the closet.

So, over time, that water just started to smell because I did not clean it up, meaning I did not know it was there. So when I said something about it they just kind of came in. It was like, "Oh, OK. We do not see a problem," and I kept calling and calling, for the same issue, until they actually figured out the pipe under the tub was broken. Never seen a tub come up. Never seen them take anything out to get moisture or anything.

The same issue was going on with a lot of the tenants in the apartment complex. So with all the mold, then it became the gas issue. You were smelling gas, and it was not just inside the apartment. It was outside. So when you smell the gas it is kind of like, OK, where is the gas coming from? Somebody needs to turn the gas off, somebody needs to check their stove, and not realizing that underneath the ground the pipe was bursting.

All of this was going on. I have been there for 6 years, and it has been persistent. Global Ministries, they did send their people out to patch things up, and right now it is a temporary fix. Yes, they did come in, and yes, they did do work, but how long will those patches stay up? How long will those patches be there, you know, to satisfy whatever passing score they have to get?

I know a lot of my residents in Eureka Gardens. They want to move out. They do not want to stay there anymore. They want completely out. They want to be able to live clean, decent. They want central air. They want better stoves, they want better refrigerators, better everything. They are tired. I have residents there that have been there since the apartments opened, and that has been almost 50 years ago. Some that have been there 20-something years, and they do not understand.

And when you were talking about disability and elderly people, most of our elderly people that were there, some of them have passed away in those apartments. Were any of those causes due to the mold, the gas leaks, and any other problems that were in the apartment? I cannot say. But when you start talking about children with lead issues, enough is enough.

I have a 7-year-old, and when I moved here I had found out that she had asthma. I do not know if it was because of the air here or anything, but I know that she has asthma. Last year, in November, I found out I had asthma. I found out lately that I have had neighbors that are on CPAP machines, that have asthma machines, pumps, and not just one of each. Some of them have all of these things.

So we do not want to live like this consistently, but you change——

Senator SCOTT. Thank you. I will give you 30 seconds to wrap up.

Ms. GRANT. Oh, OK—you change the way that we live, we will be happy.

Senator SCOTT. Thank you, ma'am, and for all the speakers we do have a lighting system there—green, start; red, stop. Thank you.

Major Lewis.

STATEMENT OF MAJOR JOSH LEWIS, RIVIERA BEACH POLICE DEPARTMENT, RIVIERA BEACH, FLORIDA

Mr. LEWIS. Good morning. On behalf of the grateful city of Riviera Beach, we thank you for bringing light to this. It was definitely necessary and needed, and it is a pleasure to be here.

My name is Major Josh Lewis of the Riviera Beach Police Department, which is a municipal police department located in Palm Beach County, Florida. I have been in law enforcement for approximately 19.5 years, all with the city of Riviera Beach. My professional highlights include attending the SPI Command Institute

Academy, along with the FBI National Academy. I currently have a master's degree in critical incident management.

The Riviera Beach Police Department initiated an investigation at Stonybrook, which is located at 1555 Martin Luther King Boulevard in Riviera Beach, in an effort to impact various public safety, health, and quality of life issues at the apartment complex. Stonybrook, which was constructed in 1972, is an affordable residential development comprised of a mix of two- and three-bedroom, two-bath housing units. There is a laundry and maintenance facility and a community center on the property. Fourteen buildings house 216 residences. The property sits on approximately 8.67 acres.

I would like to discuss a timeline of events that took place at Stonybrook, some of the conditions, some of the actions the city has taken, and some of the inactions others, to include GMF Management and Property Management, have failed to do.

Between November 28, 2012, and March 20, 2013, city officials held a series of meetings with representatives of the property management company for Stonybrook and the Regional Director for the U.S. Department of Housing and Urban Development, HUD. The topics of discussion were the prevalence of criminal activity at the location, along with property maintenance issues. At the same time, the property owner was notified about these issues. However, the property owner and their agent resisted the attempts of city officials to compel them to implement strategies and improvements, and no action took place.

During this time, there were numerous drug warrants executed, which resulted in multiple felony arrests. These arrests satisfy the legal standard to declare Stonybrook Apartments as a public nuisance. Property owners and HUD were also notified about these findings. Research as early as 2012 indicated that GMF Stonybrook, the property owner of Stonybrook, has a history of not maintaining the residential units in decent, safe, and sanitary manners, more specifically in Memphis, Tennessee, and Jacksonville, Florida, which has lost their Federal funding based on repeated code violations.

In March 2013, Stonybrook received a notice of violation for accumulation of debris, loose garbage, landscaping overgrowth, and an assortment of other miscellaneous code violations. In June 2014, Stonybrook was declared a public nuisance again, pursuant to our city ordinance. The property owner stipulated to complete the following improvements which were designed to abate the ongoing criminal nuisances to include securing access points to the property, providing armed security, installing security cameras, installing a controlled access gate, install landscaping, remove loose garbage, fix irrigation systems, paint the exterior of the buildings, and to add lighting.

In August 2013, at a code enforcement magistrate hearing, the owner was found in violation of all the said items. The magistrate allowed the owner 120 days to comply or the fines would commence. The police department continued to monitor the property, in reference to the magistrate's order.

In May 2014, a nuisance abatement status hearing took place. After presenting evidence, the magistrate found the nuisance had

still not been corrected. As a result, the city and property owners agreed to extend the magistrate's jurisdiction over the property until December 2014.

In November 2014, a notice of hearing to impose fines and claim of lien hearing was held. The magistrate found that the property owner had still not complied with the order and violations of landscaping and loose garbage remained. In December of 2014, a nuisance abatement status hearing was held. At this hearing, the city provided evidence that Stonybrook was still not fully in compliance with the nuisance abatement order and their landscaping and loose garbage violations had still not been corrected.

In January 2015, Stonybrook fired the property management company. The police department continued to monitor the property to ensure compliance with the conditions set forth by the magistrate's order.

In October 2015, a new case was heard before the magistrate for continued nuisance issues and the property was again declared a public nuisance. As such, the owners again stipulated to improving the property, to work on the ongoing criminal nuisance, and provide security service onsite, and to deal with some of the perimeter security issues on the property, such as a front gate, surveillance systems, parking details, towing system, and a tenant eviction process.

These improvements were ordered to be completed within 45 days. The police department again continued to monitor to ensure compliance. In May 2016, a nuisance abatement status hearing took place. In the hearing, the magistrate found that the city provided sufficient evidence and testimony establishing Stonybrook as a recurring public nuisance. This was based, in part, due to a series of drug deals which had recently taken place on the property.

In June 2016, with Stonybrook management compliance, the city fire department conducted an inspection. Numerous violations were located.

In 2016, we were lucky to be contacted by Senator Rubio's office regarding the inquiry of the violations, and to summarize my testimony today, the property owners have continuously, as I testified to, failed to completely correct the nuisance and code issues and do not appear to have any inclination to do so.

Senator SCOTT. Thank you, sir. Mr. O'Donnell.

STATEMENT OF VINCENT F. O'DONNELL, AFFORDABLE HOUSING CONSULTANT

Mr. O'DONNELL. Thank you, Chairman Scott, Ranking Member Menendez, other Members of the Committee, and Senators Rubio and Nelson and Ms. Grant for bringing this out for all of us to discuss today and the opportunity to testify.

My name is Vincent O'Donnell. I am a private affordable housing consultant. I have worked for over 40 years with nonprofits, State and local governments, and policymakers, and I have worked a lot with HUD around the issue of affordable housing preservation. I started my career in code enforcement, and it is distressing, really, to have to continue to be talking about that but it seems to be an issue that is always with us.

I work with a group called the National Preservation Working Group, which is a coalition of organizations, again, similar to what I said before, nonprofits and policy organizations, State and local governments, that are interested in the preservation of affordable housing in the United States, specifically HUD-assisted and USDA-assisted housing. This coalition was convened by the National Housing Trust and has, for over several decades, worked with Congress and with HUD to try to improve our system of providing affordable rental housing.

And although it is really distressing to hear what is going on with these particular properties, as a perspective, in my opinion, I do think that the overall system, writ large, for providing project-based rental assistance is a sound system, and HUD has very powerful asset management tools and quality control tools. But it is clear, from this discussion so far, that better coordination, better execution, is needed to ensure that no property ever reaches this level of distress.

In fact, I think the overwhelming majority of HUD-assisted rental housing is in pretty good shape, and it is just unfortunate that we have outliers. And it is also clear to me from the discussion that when the system for measuring performance, REAC, in particular, becomes called into question, then we do not really know exactly what the shape of the portfolio is. And so one of the things we need to do is to double down on that tool, and make sure that it is executed properly. It is a vital tool and we have to make sure that that is well done.

But in my experience, as I look around and work with other owners, I think the majority of the owners do want to do a good job, and are doing a good job, and when they are not, we have to work with HUD to make sure that its enforcement tools are properly used.

I want to go back in history just to bring out some basic principles. In the 1970s, HUD was the largest landlord in Boston, because of distressed properties being foreclosed with subsidized mortgages that HUD controlled. And a group of tenants at an organization—at a property called Methunion Manor, went to Senator Edward Brooke and pointed out that their property was up for foreclosure, and under those rules, at the time, foreclosure for them meant displacement. And this is a neighborhood that was becoming gentrified and revitalized partly due to the Federal investment that created their own housing.

And they went to Senator Brooke and said, "This is an irony. Why should we be displaced when this neighborhood is just now improving and the Federal Government's rules are going to result in restoration of funds to the FHA fund but not to us?" And Senator Brooke worked with Congress and with HUD to create legislation that gave HUD both a mandate and tools, and it was based on three principles: the property should have long-range repairs, there should be community engagement in the redevelopment process, and there should be a preservation of project-based rental assistance.

And those three principles have informed all of our other preservation activities since then. When subsidized mortgage prepayment became an issue because it allowed the deregulation of properties,

those were the principles that were applied to create the LIHPRHA program, which resulted in the preservation of affordability of thousands of units.

When Section 8 contract—long-term Section 8 contract expirations became an issue, again, those same principles were applied, and are still used today. And over time, there has been an increasing market focus on how those tools are applied, but they are sound tools and they should continue to be used in any solution to this problem of distressed housing.

So that is the general point I want to make, and I think the focus on the long-term, the community engagement, and the preservation of project-based rental assistance are the really key things.

Attached to my testimony is a piece that was written by the Preservation Working Group to HUD, to specifically address some things that we think HUD can do with the toolkit that it has. I think right now I would say——

Senator SCOTT. Thirty seconds.

Mr. O'DONNELL. OK. Thank you. The main point I think I want to make is that HUD does have a very powerful toolkit. Sometimes what holds HUD back is this kind of what I call an on-off switch, that when things get really difficult with a property, the termination of the Section 8 contract is a very powerful tool. But HUD has intermediate tools as well, and by working with local communities and with groups like the Preservation Working Group, they can tailor and make more fine-grain adjustments and bring owners into compliance without losing the subsidy, because——

Senator SCOTT. Thank you.

Mr. O'DONNELL.——if you lose a subsidy, the tenants are going to be displaced.

Senator SCOTT. Thank you.

Senator Rubio has to preside so I am going to give you my first few minutes.

Senator RUBIO. Well, I thank you for your indulgence. I thank you all again for being here today, and I think there will be a broader conversation one day about the structure of the program in general, but right now we want to make the program we have in place work better.

One of the things that we have learned in this process, and Ms. Grant, I am going to ask you about this, is one of the reasons why these tenants do not come forward—and we have heard this now on the three properties—is there is a level of intimidation and threats of eviction. And, in essence, you get hassled. If you start showing up in the newspaper and on camera—we have had tenants say, "I do not want to be on camera because, you know, bad things happen to people around here that come forward and complain."

Ms. Grant, could you share with us a little bit about some of those impediments that you have faced? And also, related to that—some of the threats of eviction, the threats that come from the management company about not complaining too much, and also—and I do not know if this has been the reality in Eureka Gardens—you have also heard that, from time to time, the management company will come in and give preferential treatment to certain tenants in exchange for them being kind of the voice of the tenants,

in essence, the owner-sponsored tenant association president, who supposedly speaks on behalf of tenants.

I know that is not the case in Eureka Gardens. We have heard about that on other properties, and therefore, they basically self-appoint the person they want to speak on behalf of the tenants, and these people think everything is great but they are getting the new refrigerator, and they are getting preferential treatment. I do not know if you saw any of that in Eureka Gardens beforehand. So if you have, we would love to hear about it, but in particular, the threats from management to tenants if they complain too much.

Ms. GRANT. Yes. You have—if you speak out or if you were bold enough to just go up there and say, "Hey, this is my problem. You need to fix it or I am going to go to Legal Aid," or "I am going to go to the news media," then it is like, "OK, well, I will give you a 10-day eviction notice so that you can get off the property," or it is a 10-day eviction notice for noncompliance, for whatever reason. It may not be for what they are complaining about. They will just find something and say, "I am giving you a 10-day notice."

We have had residents just say, "OK, they do not have a legitimate reason for giving me a 10-day notice." Then when they go to Legal Aid—because one of the—the management—the manager that was there before our new manager that is in place right now, she would just say, "I know the big guy at Legal Aid and he is not going to do anything." Later on we found out that she did not know him and he does not like her. So when that was found out, then everybody went to Legal Aid, and so she got pissed off, you know, because now she does not have any leverage over these people.

And the new manager, she does not say anything. If you feel like, you know, the issues that you have, then, you know, she will just say, "OK. Well, this is what I feel is done, you know, that you have not complied or whatever, and I will give you a 10-day notice. Now you can either work on it or, you know, leave the property." But yes, we have had——

Senator RUBIO. So, basically, there have been instances and multiple cases at Eureka Gardens where the tenant complained too much, the management company would suddenly come up with a reason to——

Ms. GRANT. Right.

Senator RUBIO.——evict you, and that got around, everybody knew if you complained you were going to get an eviction notice.

Ms. GRANT. Exactly.

Senator RUBIO. Thank you.

Senator SCOTT. Senator Nelson.

Senator NELSON. Just a quick question.

Ms. GRANT. Yes, sir.

Senator NELSON. Ms. Grant, what goes through your mind when you get a 10-day eviction notice, and you have got children that you have to provide a home for? What goes through your mind?

Ms. GRANT. Fright. You are frightened. You are scared. You do not know what to do next, because now you have to—your mind is going a million miles a minute. You are trying to figure out where I am going to go, who I am going to go stay with, or do I have any relatives to stay with, you know, because you have a lot of families that are just coming from out of town and this is the easiest place

to get into. They do not have any family that lives in Florida. So they are trying to rely on people that they know, or maybe go to the shelter if one is open, so that they can try to provide a place. Or they will figure out a way of calling family and say, "Hey, I need some money," or "I need this. They are about to put me out."

Senator NELSON. So to avoid being evicted——

Ms. GRANT. Mm-hmm.

Senator NELSON.——because you have no place to go——

Ms. GRANT. Mm-hmm.

Senator NELSON.——you keep quiet.

Ms. GRANT. Right.

Senator NELSON. Thank you, Mr. Chairman.

Senator SCOTT. Thank you, Senator Nelson, once again, for bringing this to light, along with Senator Rubio.

Let me start my questions with Major Lewis. First, thank you for your service to your community as a law enforcement officer.

Mr. LEWIS. Thank you, sir.

Senator SCOTT. Yes, sir. I would imagine—how long have you been in code enforcement, specifically?

Mr. LEWIS. I am not over code enforcement but I have participated in code enforcements investigation.

Senator SCOTT. How long, on and off?

Mr. LEWIS. In this investigation, since 2012.

Senator SCOTT. OK. So you have years of experience in this area?

Mr. LEWIS. Yes, sir.

Senator SCOTT. What we are hearing today—how often do you see these types of situations, do you hear the types of comments from residents in different locations? Is this normal or is this an outlier?

Mr. LEWIS. Sir, this is absolutely not normal. In my area of command alone I have probably seven other similar housing areas, none of which have the problems that Stonybrook has.

Senator SCOTT. So none. GMF——

Mr. LEWIS. GMF.

Senator SCOTT.——the land owner, is consistently, it appears, finding themselves in precarious positions. Is that—so this seems to be a—within a silo, something that is specific to GMF?

Mr. LEWIS. In my 19.5 years, yes, absolutely.

Senator SCOTT. That is amazing. Thank you very much.

Dr. Olsen, based on your expertise, how can Congress better structure or regulate HUD to provide assistance to people who find themselves in need of housing assistance? How do we improve this system?

Mr. OLSEN. Well, I think, broadly, the evidence indicates that the least costly way of providing housing assistance of a given quality is the housing voucher program. That is much less costly than project-based Section 8 and public housing. What this means is that for the amount of money we spend, we can serve many more people if we do it with vouchers. So that is what leads me to believe that we should really be trying to phaseout project-based assistance altogether. We should not renew use contracts. We should not create new projects.

Ms. Grant says that the tenants want out. I think they should be given vouchers and let out. I think that the landlord will find

that his property is not so valuable if he does not have government subsidies going to it.

Senator SCOTT. Thank you very much, and I should say to Senator Menendez, thank you for helping with the legislation that you and I passed to provide more vouchers for more folks so that they can determine where they want to live, as folks find themselves in a situation, as does Ms. Grant.

Ms. Grant, you have been there for 6 years? Five years?

Ms. GRANT. Six years, come the 24th of this month.

Senator SCOTT. Yes, ma'am. Thank you for being here this morning as well.

Ms. GRANT. You are welcome. Thank you.

Senator SCOTT. Thank you for sharing your story.

Ms. GRANT. Yes.

Senator SCOTT. I cannot imagine the pain and the challenges that you have faced, and the sense of intimidation that comes your way on a consistent basis.

If you could change just a few things about where you live, can you give me a quick list of things that you would like to see better, obviously?

Ms. GRANT. I want to say everything—management, the inside of the apartments, because they—those apartments are 50-years old, and I found out that the last time they had done anything to them was when they were built. So the entire apartment complex needs to be redone.

Instead of having gas right now—because the pipes are old, and when I say old, the pipes that you show behind you, nothing compared to what I saw behind my toilet, when they opened my wall. Nothing. That is nothing compared to the rust that is peeling off of the pipes. And if you peel too much, the pipes may burst.

Senator SCOTT. Thank you.

Major Lewis, do you have any specific changes or suggestions that you would like to see with the way that HUD works with GMF, from your years of experience in code enforcement?

Mr. LEWIS. I think there needs to be a closer relationship. I think there has to be accountability. I think people have to care. I know that HUD is aware of the incidents that took place at Stonybrook, but yet they somehow were able to continue from 2013 to present day. And I think maybe better coordination, more communication, I think would be helpful——

Senator SCOTT. Thank you, Major.

Mr. LEWIS.——to start.

Senator SCOTT. Yes, sir. Thank you.

I will say that I am certainly pleased that other locations within the HUD housing apparatus or umbrella are nothing like this, which is really good news. I do wish that HUD was here to explain and share with us their success stories as well as their challenges, and what they are doing to remedy the situation. Unfortunately, with their absence, not only does it fuel my frustration but it also brings a negative light unto the HUD agency.

Thank you very much.

Mr. LEWIS. Thank you.

Senator SCOTT. Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman, and thank you all for your testimony.

Let me ask you, Major Lewis—and again, thank you for your service to your community and to the State. Global Ministries—do we know who they are?

Mr. LEWIS. It is a pastor. I believe a pastor—a minister owns it. It is a religious group that owns the property.

Senator MENENDEZ. All right. It suggests so from its name but I did not want to presume that. Well, that type of ministry we do not need.

Mr. LEWIS. It is a pastor that owns it.

Senator MENENDEZ. Well, certainly that type of ministry we do not need.

Let me ask Ms. Grant, Ms. Grant, did you have any knowledge that you have the right, as a tenant, and maybe were never told, but to engage HUD and to—I do not know if you ever, in your efforts to try to improve your situation, did you know that you could engage HUD? Did you try to engage HUD at all?

Ms. GRANT. Well, not before we formed the Tenant Association. I had no idea. I wanted to find out, or at least figure out who I can call on to get help, because at this point I have never went through anything like this, so to have—to say we need help or say, "Hey, can you help me?" I did not even know where to start.

Senator MENENDEZ. Yeah, and that is not unusual, and a matter of fact, Mr. O'Donnell, one of the elements of your testimony speaks to residents—natural partners in identifying properties with chronic problems, and it specifically, in the letter attached to your testimony made part of the record, it urges HUD to provide residents with more opportunity to engage in REAC inspections and management and occupancy reviews. And I have heard from conversations myself, with tenant advocates, that residents are often not aware of their recourse in such a set of problems, and they do not know that they can reach out for the performance-based contract administrator.

So is not there a better way to engage residents? They should be, probably, the best eyes and ears of what is really happening at a location.

Mr. O'DONNELL. Yeah, tenants are the best eyes and ears, and I think there are certainly already in place anti-harassment policies, but I think we need to have a better conversation about the best way to involve residents in those oversight procedures like REAC.

Senator MENENDEZ. Major Lewis, in the process of your investigations and actions, did you have opportunity to engage HUD at a local level?

Mr. LEWIS. Just the regional level. The Regional Level Director came up.

Senator MENENDEZ. And were they responsive?

Mr. LEWIS. The problem still exists today.

Senator MENENDEZ. Uh-huh.

Mr. LEWIS. They were responsive with their comments regarding that they spoke with GMF, and that they were trying to ensure compliance. But for whatever reason, the problems exist to this day.

Senator MENENDEZ. So they were responsive without results.

Mr. LEWIS. Exactly.

Senator MENENDEZ. OK. Well, that is not responsive.

Mr. O'Donnell, let me—I am a big advocate, as the Chairman said—we joined together to pass some housing reforms that include more vouchers. However, I am always thinking, because of—I grew up poor, in a tenement, and it was not a tenement with HUD subsidy, so I know what it is to live in a place that stinks, and I do not think anybody should have to live like that. But I also understand that preserving affordable housing stock is incredibly important to protect vulnerable families. And I am struck that Dr. Olsen proposes, in his testimony, wholesale phase-out of project-based rental assistance in favor of a system made up exclusively of vouchers.

Now I have, and always will, support the tenant-based voucher programs but I know a lot of parts of this country where that voucher does not go very far, and where the very issue of where that voucher is taken, in terms of the housing that exists, may equally be substandard.

So the issue here seems to be more of enforcement, and I am glad to hear that Major Lewis pointed out that there are many other similar locations, but not with the problems of Stonybrook here, or of this particular location. Can we rely—people who are elderly, families, people with disabilities—if we, quote, rely only on market mechanisms to achieve the social goals of providing affordable housing?

Mr. O'DONNELL. Well, I could talk all day about that. That is a really powerful question.

Senator MENENDEZ. Well, neither the Chairman or are going to give you all day.

[Laughter.]

Mr. O'DONNELL. No, I think it is an extremely important question. First of all, the market does not provide for all needs, especially for vulnerable people, and part of the role of government is to step in where the market does not satisfy everybody's needs. That said, I am a big fan of vouchers, and respectfully, also do not agree that they are the full solution.

Simple example. Very recently, in this world of Section 8 housing, people say there are two things that will never happen. One is that a landlord, in their right mind, would never get rid of a Section 8 contract because it supplies their rental stream, as Dr. Olsen is pointing out, especially in a weak market. Second, nobody would ever displace elderly tenants.

Well, in the city of Detroit, recently, an elderly Section 8 property had its Section 8 contract come up for renewal and the owner elected to not renew it and to displace all those tenants. You had elderly tenants displaced in a weak market, and those folks had a really hard time finding a new place to live, and it is very stressful, as you know, for any kind of move to be required like that.

So there is no simple solution for those folks with a voucher formula.

And again, going back to the Methunion example, but it is still true today, that neighborhood, in South End of Boston, is one of the most desirable neighborhoods in the United States, not just

Boston, and the only poor people who can afford to live in the South End are people who have project-based subsidies, because the market rent in South End is too high for a voucher to work. So the only Section 8 that works there is a project-based Section 8 that pays market rent. They do not pay over market, but they pay market.

Senator MENENDEZ. I appreciate that answer, and——

Mr. O'DONNELL. And one of the other things is that Section 8 vouchers are very difficult to use in other communities. We have a great problem here in Massachusetts getting communities to accept low-income housing of any type, and all around the country there is discrimination against people because they hold vouchers. In Massachusetts you cannot do that because you cannot discriminate against voucher holders, but in most States you can. There are cultural barriers, racial barriers to acceptance of vouchers. It is a very difficult problem to rely on that.

Senator MENENDEZ. Thank you for your answer.

I will just close by saying, in my own experience, there are communities that were, at one time, depressed, in terms of their situation, and then they gentrified and became the Gold Cost, as we say, along New Jersey. Individuals who sometimes live for long times in their lives, many on a Section 8 project-based situation, and suddenly—and then those who went to vouchers, found that it was impossible to live in the communities where they and their families had lived because the housing markets prices rose so dramatically that the voucher, you know, offered them nothing, and therefore they were forced out.

That is not a market mechanism that I think, at the end of the day. So it is a mix, in my view, of the vouchers, which I have strongly supported, and at the same time, having the appropriate enforcement of project-based subsidies that will give us the mix that we need for the affordable housing I think we deserve in the country.

Thank you, Mr. Chairman.

Senator SCOTT. I want to say to all the panelists thank you for investing your time this morning, and I certainly am not sure that—Dr. Olsen said that vouchers were our panacea, that would solve all the problems that we have with HUD. Certainly it is another alternative, another avenue forward, another way forward. And Mr. O'Donnell, thank you for your comments this morning, as well. Major Lewis, again, thank you for being here. Ms. Grant, you can come on back home to Charleston any time you want to. We appreciate you being before the panel.

I will say that there are many issues in the housing footprint that we ought to engage in. Growing up in poverty, in a single-parent household myself, the issue of housing is such an important foundational issue, so that children who go to school can come home and learn in a safe environment, that adults who want to continue to improve their lives can see a path forward.

There is such a project in Spartanburg, South Carolina, called the Northside Project, that is helping to reduce gentrification by having the current residents be a part of the board of directors and create a vision for how to do housing in a new and inventive—innovative way. It is a fabulous project that needs more attention,

and it does, in fact, blend vouchers with places like—hopefully not exactly like where you live, Ms. Grant—but places that are for apartment-type settings, as well as, then, community housing. So a person can stay in the same neighborhood and live the evolution of improving their plight.

Thank you all for bringing light to this issue and doing it in such a professional manner.

Any Member that may want to provide questions for the record would have up to 7 days to do so.

This hearing is adjourned.

[Whereupon, at 11:18 a.m., the hearing was adjourned.]

[Prepared statements, responses to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF SENATOR BILL NELSON

Mr. Chairman, Ranking Member Menendez, and Members of the Committee:

Thank you for inviting me here today to talk about what Senator Rubio and I saw when we visited Windsor Cove, a subsidized housing facility in Orlando, and to talk about the bill we filed earlier this year in response to the problems we found at that facility and other subsidized properties, like Eureka Gardens and Washington Heights in Jacksonville.

The conditions at these properties are unacceptable. I challenge the owners of these properties to spend a week in their own buildings. I doubt any of them will take me up on that though.

When Senator Rubio and I visited Windsor Cove apartments in Orlando, we saw evidence of severe water damage. With so much water sitting everywhere, it's no wonder the tenants are constantly battling against instances of mold and roach infestation.

When I stepped into one of the apartments, the carpeting was so saturated with water that it made a squishing sound. Think about that.

Since that visit, we learned Federal inspectors have cited the property for various housing code violations, including broken smoke detectors, exposed electrical wires, blocked fire exits, leaky water valves, window cracks, missing floor tiles, and water seeping in from roof damage—just to name a few.

The property was given a failing grade in April, 10 months after receiving a nearly perfect score from a contract inspector working for the Department of Housing and Urban Development. HUD invalidated that previous score only after receiving a barrage of complaints from tenants at their local office. The contractor was then barred from performing further inspections for the agency.

I appreciate the corrective action taken by HUD, but it's not enough.

Residents had to wait 10 months for HUD to get it right and perform a new inspection—and even then they had to wait an extended period for the owner to appeal the new inspection results before HUD could demand remediation.

HUD clearly needs to do a better job to find these problems before they reach a boiling point. And the owners of these properties need to be held accountable for their shortcomings.

This isn't the case of one housing complex or one property owner. Several properties around the country are falling victim to the problem of lax oversight.

For example, according to one report, tenants at Goodwill Village in Memphis, Tennessee had to deal with an onslaught of snakes—which were attracted to the property because of a rat infestation.

It would take too long for me to talk about every failing property in the country, but I think we can all agree that one is too many.

So I introduced the Housing Accountability Act with Senator Rubio to give tenants a voice and to remove the over dependence on unscrupulous property managers and faulty inspections to clue HUD into what's going on at these properties.

The bill does four main things:

- First, it codifies in law—rather than through regulation or contract—that subsidized property owners have to maintain safe and sanitary conditions at their properties. This should be common sense, but unfortunately we need to put the fear of law into some of these owners.
- Second, it establishes a process for independent contract administrators to survey tenants twice a year in order to identify persistent problems relating to the physical condition of the properties or the performance of the building's management.

  Currently, HUD requires tenants to file complaints with the building's management—who may not be responsive or may use the threat of eviction to intimidate tenants. The survey would act as a check on management, as well as on the property owners.
- Third, the bill would create a new penalty for owners that fail to maintain safe and sanitary conditions, or are repeatedly referred to HUD for remediation under the tenant survey previously mentioned.
- Last, the bill requires HUD to issue a report examining the capitalization of all subsidized properties in the country, particularly with regard to the use of taxpayer funds for purposes unrelated to the subsidized housing.

  We've heard stories that some of these landlords pocket the subsidy they get from HUD, while refusing to make needed repairs.

We need to know if that's indeed what's happening. If it is, then we need to tighten the controls on these property owners. Taxpayers fund these programs to look out for those in need, not to pad the wallets of real estate companies looking to make a quick buck.

Last—I've said this before but it begs repeating—no American should have to live in the conditions that we've seen at Windsor Cove and Eureka Gardens. We can't let this continue. I thank the Committee for taking the time to discuss this very important issue. Thank you.

PREPARED STATEMENT OF SENATOR MARCO RUBIO

- Thank you, Chairman Scott, for holding today's hearing on this important issue.
- Providing safe and sanitary conditions for people receiving housing assistance is central to HUD's mission, so it's disturbing to see taxpayer dollars wasted like this, and disappointing that HUD failed to provide a witness today.
- I would like to welcome two witnesses that will be testifying on the second panel, Ms. Tracy Grant and Major Josh Lewis.
- Both of these Floridians have done much to help my State and the entire country through their work to make these conditions known, and I want to thank them for taking the time to travel up to Washington to testify before this Committee today.
- I became involved with this situation about a year ago, when the tenants of Eureka Gardens took their case to the public. These tenants bravely made their voices heard while they faced threats of eviction from the landlord, Global Ministries Foundation (GMF).
- Since then, residents at other GMF properties and at derelict Section 8 properties around the State have spoken of their troubles and I am proud to represent their voices here today.
- When I visited Eureka Garden Apartments in Jacksonville, I saw crumbling staircases, exposed electrical wires, and boarded-up windows that would trap a child inside if there was a fire.
- I saw an apartment that hadn't been painted in 13 years. I saw pieces of wood with exposed nails put up in place of a door, in a unit with small children.
- This was all evident even after GMF rushed crews to the property to make cosmetic repairs just 48 hours before I arrived.
- I spoke with tenants who had been through a lot over the last few years and heard stories like some of the ones you will hear Ms. Grant tell today—stories of neglect, crime, and bureaucratic indifference from HUD.
- When Senator Nelson and I visited Windsor Cove Apartments in Orlando, we saw standing water in apartments, damaged roofs, collapsed ceilings, and breathed air that reeked of mold.
- We spoke with residents who had lived there for multiple years now, trapped in a facility with conditions that no one should have to endure.
- When I visited Stonybrook Apartments in Riviera Beach, I saw even more of the same.
- An unwillingness to repair these properties is unfortunately par-for-the-course for GMF.
- They willfully neglect the well-being of their tenants, as you will hear Major Lewis testify.
- These are the three GMF properties I have visited in the State of Florida. In each case, HUD has enabled fraud and abuse to continue, all while taxpayer money continues to flow into the pockets of these slumlords.
- Bureaucratic red tape, miscommunication, and a lack of urgency have plagued this Administration's response.
- But nothing displays how broken this program is better than HUD's inspection process.
- The passing score in HUD's inspection process is a 60 out of 100.
- If a property scores above this threshold, HUD gives it the stamp of approval, declaring that the conditions are "decent, safe, and sanitary"—an approval that traps tenants at the property and keeps money flowing to the landlord.
- What I have discovered in Florida, however, is that HUD has compromised the integrity of its standards.

- Last year, the inspection of Windsor Cove gave it a passing score of 90 points out of 100.
- The next inspection, which occurred a week after Senator Nelson and I visited the property, gave it a failing score of a 48.
- That inspection found a projected 86 life-threatening deficiencies on the property. From one score to the next, this kind of inconsistency is beyond belief.
- Eureka Gardens received a score of over 80 out of 100 during the summer inspection that occurred just before the tenants brought forth their complaints.
- After months of back-and-forth repairs, hospitalizations from gas leaks, alleged lead poisoning, and incessant mold outbreaks, HUD's follow-up inspection gave the property a score of 62 out of 100.
- Just barely passing, if you can imagine that.
- Right after that inspection, in a letter sent to GMF after visiting the property, the Deputy Assistant Secretary for Multifamily Housing wrote that "HUD officials do not believe the property would currently pass another REAC inspection," despite the fact that an inspection had just happened barely a month before.
- The slumlords at Global Ministries Foundation caused this problem, but HUD enabled it.
- And the twin vices that so often afflict massive Federal welfare programs—bureaucracy and corruption—have prevented the kind of action necessary to protect the tenants, and allowed this crisis to go on for far too long.
- This is why I introduced and passed three amendments to the HUD appropriations legislation the Senate considered back in May.
- These amendments would enact a clear, 15-day deadline for property owners to respond to physical deficiencies, make tenant protection vouchers available to residents living at properties with imminent health and safety risks like GMF's properties, and order a nationwide audit of HUD's inspection process.
- Senator Nelson and I have also introduced legislation that would enact a tenant survey in order to better identify problem properties like GMF's.
- The problems found at these properties are not limited to the State of Florida. GMF owns properties in Alabama, Indiana, Louisiana, North Carolina, New York, Georgia, and Tennessee—where similarly bad conditions have led to Federal investigations.
- GMF owns over 5,000 taxpayer-funded units across the Nation.
- And beyond GMF, if HUD is falsely certifying the living conditions at this many properties for one organization, then it is probably doing the same thing for many other entities.
- I look forward to hearing from today's witnesses about the effects of GMF's fraud and HUD's neglect, and hope we can continue working together to investigate GMF and pass legislation to fix HUD's faulty inspection process.

PREPARED STATEMENT OF EDGAR OLSEN

PROFESSOR, ECONOMICS AND PUBLIC POLICY, UNIVERSITY OF VIRGINIA *

SEPTEMBER 18, 2016

Reducing Poverty by Reforming Housing Policy

Low-income housing assistance is fertile ground for reforms that would provide better outcomes with less public spending. The majority of current recipients are served by programs whose cost is enormously excessive for the housing provided. Phasing out these programs in favor of the system's most cost-effective program would ultimately free up the resources to provide housing assistance to millions of additional people and reduce taxes.[1]

---

* This paper was submitted for the Hearing on Oversight of the HUD Inspection Process and reflects the views of its author. It does not represent the official position of the University of Virginia. The University does not have an official position on low-income housing policy. It will appear in an American Enterprise Institute volume on means-tested programs *Helping the Poor Better* edited by Robert Doar.

[1] Edgar O. Olsen, "The Effect of Fundamental Housing Policy Reforms on Program Participation," University of Virginia, January 14, 2014, *http://eoolsen.weebly.com/uploads/7/7/9/6/7796901/ehpfinaldraftjanuary2014coverabstracttextreferencetablesonlineappendices.pdf.*

Furthermore, the current system of low-income housing assistance provides enormous subsidies to some households while offering none to others that are equally poor, and it provides subsidies to many people who are not poor while offering none to many of the poorest. Avoiding these excessive subsidies and focusing assistance on the poorest families will contribute further to poverty alleviation. Well-designed reforms of the current system of low-income housing assistance would substantially alleviate poverty with less public spending.

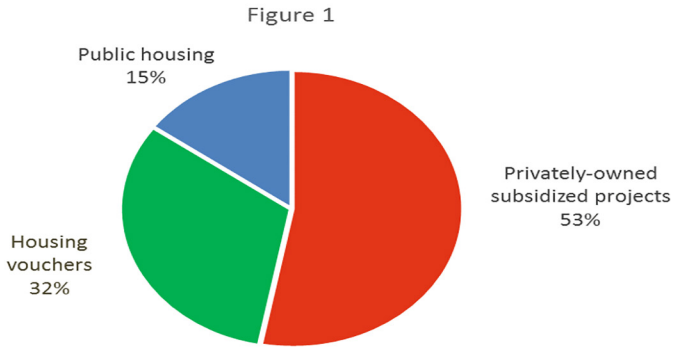
Overview of Current System

To appreciate the potential for alleviating poverty through housing policy reforms, it is essential to know the nature of current programs and the evidence about their performance.[2] The bulk of low-income housing assistance in the United States is funded by the Federal Government through a large number of programs with a combined cost of more than $50 billion a year. Unlike other major means-tested transfer programs in the United States, low-income housing programs do not offer assistance to many of the poorest families that are eligible for them. Eligible families that want assistance must get on a waiting list.

Most low-income housing assistance in the United States is for renting a unit, and the most important distinction among rental housing programs is whether the subsidy is attached to the dwelling unit (project-based assistance) or the assisted household (tenant-based assistance). If the subsidy is attached to a rental dwelling unit, families must accept the particular unit offered to receive assistance and lose the subsidy if they move, unless they obtain alternative housing assistance before moving.

Each family offered tenant-based assistance is free to occupy any unit that meets the program's minimum housing standards, that rents for less than the program's ceiling, that is affordable with the help of the subsidy, and whose owner is willing to participate in the program. Families retain the subsidy if they move to another unit meeting these conditions. Figure 1 indicates the percentage of households that receive rental assistance of various types.

Figure 1. Percentage of Households That Receive Each Type of Rental Assistance



Source: Author's calculations based on 2013 American Housing Survey.

Note: Includes assistance from U.S. Department of Housing and Urban Development and other sources.

The Department of Housing and Urban Development (HUD) housing voucher program is the only significant program that provides tenant-based assistance. It is the second-largest low-income housing program, serving about 2 million households and

[2] For a detailed overview of the current system of low-income housing assistance and a summary of the evidence, see Edgar O. Olsen, "Housing Programs for Low-Income Households," in *Means-Tested Transfer Programs in the U.S.,* ed. Robert Moffitt (Chicago: University of Chicago Press, 2003); and John C. Weicher, *Housing Policy at a Crossroads: The Why, How, and Who of Assistance Programs* (Washington, DC: AEI Press, 2012). For a more detailed account of the evidence, see Edgar O. Olsen and Jeff Zabel, "U.S. Housing Policy," in *Handbook of Regional and Urban Economics,* ed. Giles Duranton, J. Vernon Henderson, and William Strange, vol. 5 (Amsterdam: North-Holland, 2015).

accounting for about 32 percent of all households that receive low-income rental assistance.

There are two broad types of project-based rental assistance: public housing and privately owned subsidized projects. Both types have usually involved constructing new projects. In almost all other cases, they have required substantial rehabilitation of existing buildings. Many of these programs no longer subsidize the construction of projects, but most projects built under them still house low-income households with the help of subsidies for their operation and renovation. Overall, project-based assistance accounts for about 68 percent of all households that receive low-income rental assistance.

Public housing projects are developed and operated by local public housing authorities established by local governments, albeit with substantial Federal subsidies and regulations that restrict their choices. For example, regulations limit the circumstances under which housing projects can be sold and what can be done with the proceeds. In the public housing program, government employees make most of the decisions that unsubsidized for-profit firms would make in the private market—what to build, how to maintain it, and when to tear it down. Decisions about where to build projects have been heavily influenced by local political bodies. The public housing stock has declined by about 400,000 units since its peak in 1991. About 1 million households live in public housing projects.

Government agencies also contract with private parties to provide housing in subsidized projects. Most are for-profit firms, but not-for-profits have a significant presence. The largest programs of this type are the IRS's Low-Income Housing Tax Credit, HUD's Section 8 New Construction and Substantial Rehabilitation and Section 236 Rental and Cooperative Housing for Lower-Income Families programs, and the U.S. Department of Agriculture's Section 515 and 521 programs. Under these programs, in exchange for certain subsidies, private parties agree to provide rental housing meeting certain standards at restricted rents to eligible households for a specified number of years.

None of these programs provide subsidies to all suppliers who would like to participate. This is highly relevant for their performance. In general, subsidies to selected sellers of a good have very different effects than subsidies to all sellers. Subsidies to selected sellers lead to excessive profits and much greater wasteful rent seeking. About 4 million households live in projects of this type.

Performance of U.S. Low-Income Housing Programs

Many aspects of the performance of low-income housing programs have been studied, such as their effects on recipients' labor earnings and the types of neighborhoods occupied by them.[3] We certainly do not have evidence on all aspects of performance for all programs, and the evidence leaves much to be desired in many cases. However, we cannot avoid making a decision about reforms until we have excellent evidence on all aspects of performance for all programs. Enough evidence exists to give policymakers confidence that certain changes would move the program in the right direction. Making no change in current policies is a decision.

Of all the differences in the performance of various methods for delivering housing assistance to low-income families, differences in cost-effectiveness are by far the most consequential for poverty alleviation. Evidence on housing programs' performance indicates that project-based assistance is much more costly than tenant-based assistance when it provides equally good housing. These studies define equally good housing to be housing that would rent for the same amount in the same locality in the unsubsidized market. This measure accounts for the desirability of the neighborhood and the housing itself. In the best studies, the estimated magnitude of the excess cost is enormous.[4]

The best study of Section 8 New Construction and Substantial Rehabilitation, HUD's largest program that subsidized the construction of privately owned projects, found an excess total cost of at least 44 percent.[5] That is, the total cost of providing housing under this program was at least 44 percent greater than the total cost of providing equally good housing under the housing voucher program. This translates into excessive taxpayer cost of at least 72 percent for the same outcome. It implies that housing vouchers could have served all the people served by this program

[3] Olsen and Zabel, "U.S. Housing Policy."

[4] For a detailed summary of the evidence on the cost-effectiveness of low-income housing programs, see Edgar O. Olsen, "Getting More from Low-Income Housing Assistance," Brookings Institution, September 2008, *http://www.brookings.edu/papers/2008/09_low_income_housing_olsen.aspx.*

[5] James E. Wallace *et al., Participation and Benefits in the Urban Section 8 Program: New Construction and Existing Housing,* vol. 1 and 2 (Cambridge, MA: Abt Associates, 1981).

equally well and served at least 72 percent more people with the same characteristics without any increase in public spending.

The best study indicates even larger excess costs for public housing.[6] More recent evidence has confirmed the large excess cost of the Section 8 New Construction and Substantial Rehabilitation Program, and U.S. General Accounting Office (GAO) studies have produced similar results for the major active construction programs: LIHTC, HOPE VI, Section 202, Section 515, and Section 811.[7] In contrast, a succession of studies over the years have found that the total cost of various types of tenant-based housing assistance have exceeded the market rent of the units involved by no more than the modest cost of administering the program.[8]

The preceding evidence on the cost-effectiveness of project-based assistance applies to units built or substantially rehabilitated under a subsidized construction program and still under their initial use agreement. Evidence from the Mark-to-Market program indicates the excessive cost of renewing use agreements for privately owned subsidized projects. In most cases, owners are paid substantially more than market rents for their units.[9]

The results concerning the cost-effectiveness of different housing programs illustrate the virtue of substantially relying on market mechanisms to achieve social goals, especially the virtue of forcing sellers to compete for business. Under a program of tenant-based assistance, only suppliers who provide housing at the lowest cost given its features can remain in the program. If the property owner attempts to charge a voucher recipient a rent in excess of the market rent, the tenant will not remain in the unit indefinitely because he or she can move to a better unit without paying more for it. Under programs of project-based assistance, suppliers who receive payments in excess of market rents for their housing can remain in the program indefinitely because their tenants would lose their subsidies if they moved. These suppliers have a captive audience.

Recent events in Washington, DC, vividly illustrate the pitfalls of providing subsidies to selected suppliers.[10] The mayor has proposed spending about $4,500 per month per apartment to lease units in buildings owned mainly by contributors to her campaign. This cost does not include services to these families, and most units are dormitory style. It has been estimated that these agreements would increase the market value of the properties tenfold. At the same time, families with HUD's Section 8 housing vouchers have been able to find regular two-bedroom apartments for rents around $1,600 a month. These are better than average rental units that meet HUD's housing standards. The median rent of two-bedroom units in DC is about $1,400.

The evidence on cost-effectiveness argues strongly for phasing out project-based assistance in favor of tenant-based assistance. This would contribute greatly to poverty alleviation without spending more money by increasing the number of poor families that receive housing assistance.

Phasing out project-based assistance will contribute to poverty alleviation for another reason. Under the current system, the best units in new projects in the best locations have very high market rents. They are much more desirable than the average rental unit. The worst units in the oldest projects in the worst locations have

---

[6] Stephen K. Mayo *et al., Housing Allowances and Other Rental Assistance Programs—A Comparison Based on the Housing Allowance Demand Experiment, Part 2: Costs and Efficiency,* Abt Associates Inc., 1980.

[7] Meryl Finkel *et al., Status of HUD–Insured (or Held) Multifamily Rental Housing in 1995: Final Report,* Abt Associates Inc., May 1999, Exhibit 5–1; Mark Shroder and Arthur Reiger, "Vouchers Versus Production Revisited," *Journal of Housing Research* 11, no. 1 (2000): 91–107; U.S. General Accounting Office, *Federal Housing Programs: What They Cost and What They Provide, GAO–01–901R, July 18, 2001, http://www.gao.gov/products/GAO-01-901R;* and U.S. General Accounting Office, *Federal Housing Assistance: Comparing the Characteristics and Costs of Housing Programs,* GAO–02–76, January 31, 2002, *http://www.gao.gov/products/GAO-02-76.*

[8] Mayo *et al., Housing Allowances and Other Rental Assistance Programs—A Comparison Based on the Housing Allowance Demand Experiment, Part 2: Costs and Efficiency;* Wallace *et al., Participation and Benefits in the Urban Section 8 Program: New Construction and Existing Housing;* Mireille L. Leger and Stephen D. Kennedy, *Final Comprehensive Report of the Freestanding Housing Voucher Demonstration,* vol. 1 and 2 (Cambridge, MA: Abt Associates Inc., 1990); and ORC Macro, *Quality Control for Rental Assistance Subsidies Determination,* U.S. Department of Housing and Urban Development, Office of Policy Development and Research, 2001, chap. 5.

[9] For a summary of the evidence, see Olsen, "Getting More from Low-Income Housing Assistance." 14.

[10] Aaron C. Davis and Jonathan O'Connell, "Shelter Plan May Benefit Mayor's Backers," *Washington Post,* March 17, 2016; and Fenit Nirappil, "Shelters' Cost Stun Some DC Lawmakers," *Washington Post,* March 18, 2016.

very low market rents. Identical families living in the best and worst projects pay the same rent. Therefore, the current system provides enormous subsidies to some families and small subsidies to others in the same economic circumstances.

Equalizing these subsidies would contribute to poverty alleviation. Under the housing voucher program, identical households within the same housing market are offered the same assistance on the same conditions. Therefore, providing incremental housing assistance in the form of housing vouchers rather than subsidized housing projects would contribute to poverty alleviation by giving larger subsidies to the families that would have received the smallest subsidies in the absence of reform and smaller subsidies to similar families that would have received the largest subsidies.

These inequities have not been carefully documented but are obvious to all knowledgeable observers. A recent segment on *PBS NewsHour* revealed that $500,000 had been spent per apartment to build a housing project for the homeless in San Francisco.[11] This is expensive even by Bay Area standards. The median value of owner-occupied houses in the San Francisco metro area was $558,000, and the median household income of their occupants was $104,000. So this government program provided apartments to the poorest families that were almost as expensive as the houses occupied by the average homeowner.

Ensuring that the homeless occupy housing meeting reasonable minimum standards does not require anything like the amount of money spent on these units. More than 20 percent of owner-occupied houses in the San Francisco area sell for less than $300,000. Furthermore, almost half of the families in the area are renters whose median income is about $50,000. They live in much less expensive units than homeowners.

We do not need to build new units to house the homeless. They can be housed in satisfactory existing units at a much lower taxpayer cost. More than 6 percent of the dwelling units in the area were vacant at the time.

In Portland, Oregon, where the median value of owner-occupied houses was $249,000, $360,000 per apartment was spent to build another housing project for the homeless.[12] These cases are not anomalies. The HUD website is filled with photographs of such housing. The desire of the people involved in the current system to provide the best possible housing for their clients is understandable. However, this is not costless. Dollars spent on these high-cost projects are dollars not spent providing housing to more people.

Tenant-based assistance has other important advantages in addition to its greater equity and its much lower cost for providing equally desirable housing. For example, it allows recipients to choose housing that better suits their preferences and circumstances, such as living close to their jobs. This increases their well-being without increasing taxpayer cost.

In contrast to occupants of subsidized housing projects, voucher recipients have chosen to live in neighborhoods with lower poverty and crime rates. Susin found that public housing tenants live in census tracts with poverty rates 8.8 percentage points higher than in the absence of assistance, tenants in HUD-subsidized privately owned projects live in tracts with poverty rates 2.6 percentage points higher; and voucher recipients live in tracts with poverty rates 2.3 percentage points lower.[13] Michael C. Lens, Ingrid Gould Ellen, and Katherine O'Regan found that occupants of tax-credit projects live in neighborhoods with crime rates about 30 percent higher than voucher recipients and only slightly lower than the crime rates in public housing neighborhoods.[14] Because voucher recipients have much more choice concerning the location of their housing, this suggests that subsidized housing projects are poorly located from the viewpoint of recipient preferences.

Voucher recipients have exercised this choice in a way that benefits their children. A widely cited, recent paper shows that better neighborhood environments lead to better adult outcomes for children in recipient households.[15] They have higher college attendance rates and labor earnings and are less likely to be single parents.

---

[11] *PBS NewsHour,* aired October 9, 2013 (New York, MGM Television).

[12] Peter Korn, "Police threaten complaint as calls mount at the commons," *Portland Tribune,* January 9, 2014.

[13] Scott Susin, "Longitudinal Outcomes of Subsidized Housing Recipients in Matched Survey and Administrative Data," *Cityscape* 8, no. 2 (2005): 207.

[14] Michael C. Lens, Ingrid Gould Ellen, and Katherine O'Regan, "Do Vouchers Help Low-Income Households Live in Safer Neighborhoods? Evidence on the Housing Choice Voucher Program," *Cityscape* 13, no. 3 (2011): 135–59.

[15] Raj Chetty, Nathaniel Hendren, and Lawrence F. Katz, "The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment," *American Economic Review* 106, no, 4 (2016): 855–907.

Before considering reforms of low-income housing policy, it is important to address a bit of folklore that has been influential in housing policy debates: that construction programs perform better than housing vouchers in tight housing markets. Todd Sinai and Joel Waldfogel show that additional housing vouchers result in a larger housing stock than the same number of newly built units in subsidized, privately owned housing projects.[16]

In light of other evidence, the most plausible explanations are that subsidized construction crowds out unsubsidized construction considerably and that the housing voucher program induces more recipients to live independently. The voucher program serves poorer households that are more likely to be doubled up in the absence of housing assistance. Crowding out is surely greatest in the tightest housing markets. In the absence of subsidized construction in these markets, unsubsidized construction would be high, and unemployment among construction workers would be low. Subsidized construction would divert workers from unsubsidized construction.

Furthermore, it is reasonable to believe tenant-based vouchers get families into satisfactory housing much faster than any construction program, even in the tightest housing markets. For example, the amount of time from when new vouchers are allocated to housing authorities to when they are used by voucher recipients is surely less than the amount of time from when new tax credits are allocated to State housing agencies to when tax-credit units are occupied.

Even though some households do not use the vouchers offered, housing authorities can put all, or almost all, their vouchers to use in less than a year in any market condition. They can fully utilize available vouchers by over-issuing vouchers early in the year and then adjusting the recycling of the vouchers that are returned by families that leave the program late in the year. No production program can hope to match this speed in providing housing assistance to low-income households.

Proposed Reforms of Low-Income Housing Policies To Alleviate Poverty

The available evidence on program performance has clear implications for housing policy reform. To serve the interests of taxpayers who want to help low-income families with their housing and the poorest families that have not been offered housing assistance, Congress should shift the budget for low-income housing assistance from project-based to tenant-based housing assistance as soon as current contractual commitments permit and phaseout active construction programs.

This section describes proposals for reform of low-income assistance that will alleviate poverty without spending more money. The reforms deal with all parts of the current system—active construction programs, existing privately owned housing projects, public housing, and the housing voucher program.

Active Subsidized Construction Programs. The Low-Income Housing Tax Credit (LIHTC) is the largest active construction program. It subsidizes the construction of more units each year than all other programs combined. LIHTC recently became the Nation's largest low-income housing program, serving 2.4 million households, and it is the fastest growing. The tax credits themselves involved a tax expenditure of about $6 billion in 2015. However, these projects received additional development subsidies from State and local governments, usually funded through Federal intergovernmental grants, accounting for one-third of total development subsidies.[17] Therefore, the total development subsidies were about $9 billion a year.

Furthermore, the GAO found that owners of tax-credit projects received subsidies in the form of project-based or tenant-based Section 8 assistance on behalf of 40 percent of their tenants.[18] The magnitude of these subsidies has never been documented. If their per-unit cost were equal to the per-unit cost of tenant-based housing vouchers in 2015, they would have added more than $8 billion a year to the cost of the tax-credit program. If so, the full cost of housing people in tax-credit projects would have been about $17 billion in 2015.

Unlike HUD's programs, the LIHTC is poorly targeted to the poorest households. Some tax credits are used to rehabilitate older housing projects built under HUD and U.S. Department of Agriculture programs that continue to provide deep subsidies to their occupants. Other tax-credit units are occupied by families with portable Section 8 housing vouchers. The families in these units typically have very low earnings. However, the majority of occupants of tax-credit projects do not receive these deep subsidies related to their income. Their average income is more than

[16] Todd Sinai and Joel Waldfogel, "Do Low-Income Housing Subsidies Increase the Occupied Housing Stock?" *Journal of Public Economics* 89, no. 11–12 (2005): 2137–64.

[17] Jean L. Cummings and Denise DiPasquale, "The Low-Income Housing Tax Credit: An Analysis of the First Ten Years," *Housing Policy Debate* 10, no. 1 (1999): 299.

[18] U.S. General Accounting Office, *Tax Credits: Opportunities to Improve Oversight of the Low-Income Housing Program,* GGD/RCED–97–55, 1997, 40.

twice the average for the occupants who receive the deep subsidies, and they are well above poverty thresholds.[19]

The poor targeting of its subsidies and the evidence on its cost-ineffectiveness argue strongly for the cessation of subsidies for additional LIHTC projects. Reducing new authorizations under the program by 10 to 20 percent each year would achieve this outcome in an orderly fashion. The money spent on this program would be better spent on expanding HUD's well-targeted and cost-effective Section 8 Housing Choice Voucher Program.

Because the congressional committees that oversee the two programs are different, this transfer of funds would be difficult to arrange. However, the committees that oversee the LIHTC could divert the reduced tax expenditures on the LIHTC to a refundable tax credit for the poorest low-income homeowners, thereby offsetting to some extent the anti-homeownership bias of the current system of low-income housing assistance. About 25 percent of all unassisted households in the lowest real-income decile are homeowners.[20] To avoid excess profits to sellers, it is extremely important that buyers are able to purchase from any seller.[21]

Existing Privately Owned Subsidized Projects. The second broad proposal to reform low-income housing policy in the interest of poverty alleviation is to not renew contracts with the owners of private subsidized projects. The initial agreements that led to building or substantially rehabilitating these projects called for their owners to provide housing that meets certain standards to households with particular characteristics at certain rents for a specified number of years. At the end of the use agreement, the government must decide on the terms of the new agreement, and the private parties must decide whether to participate on these terms. A substantial number of projects end their use agreements each year. When use agreements are not renewed, current occupants are provided with other housing assistance, almost always tenant-based vouchers.

Up to this point, housing policy has leaned heavily in the direction of providing owners with a sufficient subsidy to induce them to continue to serve the low-income households in their projects. We should not repeat these mistakes. Instead we should give their tenants portable vouchers and force the owners to compete for their business. The evidence on the cost-effectiveness of renewing use agreements versus tenant-based housing vouchers indicates that offering such vouchers would reduce the taxpayer cost of assisting these families. The savings could be used to assist additional families.

It is important to realize that for-profit sponsors will not agree to extend the use agreement unless this provides at least as much profit as operating in the unsubsidized market. Because these subsidies are provided to selected private suppliers, the market mechanism does not ensure that rents paid for the units will be driven down to market levels. If this is to be achieved at all, administrative mechanisms must be used. Administrative mechanisms can err in only one direction—providing excess profits. If the owner is offered a lower profit than in the unsubsidized market, the owner will leave the program. We should leave the job of getting value for the money spent to the people who have the greatest incentive to do so: namely, the recipients of housing assistance.

It is often argued that giving families that live in privately owned subsidized housing projects portable housing vouchers at the end of the use agreement will force them to move. This would not be the case if tenants are offered the same options as they are offered under the current system when the project's owner opts to leave the program. HUD will pay the market rent for the unit as long as the tenant wants to remain in it but offers the tenant the option of a regular housing voucher. This would enable the family to continue to live in its current unit without devoting more income to rent, and it would offer the family other options that it might prefer.

It is also argued that the failure to renew use agreements on privately owned subsidized projects reduces the number of affordable housing units. If the occupants of these projects are offered portable vouchers, this could not be further from the truth. When use agreements are extended, the only unit that is made affordable to an assisted family living in the project is its own unit. If that family is offered a

---

[19] *Ibid.,* 146.

[20] In determining a household's real income, this calculation adds an imputed return on home equity to the income of homeowners and accounts for differences in family size and composition and price levels across locations. Edgar O. Olsen, "Promoting Homeownership Among Low-Income Households," Urban Institute, August 20, 2007, Table 1, *http://www.urban.org/UploadedPDF/411523_promoting_homeownership.pdf.*

[21] Edgar O. Olsen and Jens Ludwig, "The Performance and Legacy of Housing Policies," in *The Legacies of the War on Poverty,* ed. Martha Bailey and Sheldon Danziger (New York: Russell Sage Foundation, 2013), 218–21.

portable voucher, many units become affordable to the family. Contrary to the arguments of lobbyists for project-based housing assistance, failing to renew use agreements on subsidized housing projects increases rather than decreases the stock of housing that is affordable to low-income households.

Public Housing. The public housing reform proposals are proposals to better use the funds and assets currently available to public housing authorities. They are designed to alleviate poverty by delivering better housing to tenants who remain in public housing, providing current public housing tenants with more choice concerning their housing, assisting additional households, and reducing the concentration of the poorest families in public housing projects. The proposals would require congressional action to change the restrictions on housing authorities, except possibly for those participating in HUD's Moving to Work Demonstration.

Currently, HUD provides public housing authorities with more than $6 billion each year in operating and modernization subsidies for their public housing projects. My proposal would give each housing authority the same amount of Federal money as it would have gotten with the old system, so no authority would be able to object on the grounds that it would have less to spend on its clients. However, the proposal would alter greatly the restrictions on the use of this money and increase the total revenue of housing authorities.

The proposal requires every public housing authority to offer current tenants the option of a portable housing voucher or remaining in their current unit on the previous terms, unless the housing authority decides to demolish or sell its project. To ensure that housing authorities can pay for these vouchers with the money available, the generosity of the voucher subsidy would be set to use the housing authority's entire Federal subsidy in the highly unlikely event that all public housing tenants accepted the vouchers. The generosity of these vouchers would almost always differ from the generosity of regular Section 8 vouchers, although the difference would be small in most cases.

Housing authorities would be allowed to sell any of their projects to the highest bidder with no restrictions on its future use. This would provide additional revenue to improve their remaining projects or provide vouchers to additional households. The requirement that these projects must be sold to the highest bidder maximizes the money available to help low-income families with their housing. It also avoids scandals associated with sweetheart deals.

Many housing authorities would surely choose to sell their worst projects. With uniform vouchers offered to families living in all of a housing authority's projects, it is reasonable to expect that the vouchers will be accepted by more tenants in the worst projects. These are the projects that would be the most expensive to renovate up to a specified quality level. They are the types of projects that have been demolished under the HOPE VI program and that Congress intended to voucher out under the 1998 Housing Act. By selling the public housing projects on which they would have spent the most money and providing their occupants with vouchers that have the same cost as the authority's average net expenditure on public housing units, the public housing authority would free up money to better maintain its remaining units or provide vouchers to additional households.

When a project is sold, the remaining tenants in that project would be offered the choice between vacant units in other public housing projects or a housing voucher, the standard procedure when projects are demolished or substantially rehabilitated. When public housing units are vacated by families that accept vouchers, the housing authority would offer the next family on the waiting list the option of occupying the unit or a portable housing voucher. If the family takes the voucher, the housing authority would be allowed to charge whatever rent the market will bear for the vacant unit. This would provide additional revenue to housing authorities without additional government subsidies.

To reduce poverty concentrations in public housing projects, Congress might want to eliminate the income-targeting rules for families that pay market rents for public housing units. Indeed, it might want to eliminate upper-income limits for these families. Under current regulations, at least 40 percent of new occupants must have extremely low incomes. Under the proposal, the new occupants will receive no public subsidy, and so income targeting would serve no public purpose.

Each year some former public housing tenants who had used the proposed vouchers to leave their public housing units would give up these vouchers for a variety of reasons. The money saved from their departure should be used to offer similar vouchers to other families eligible for housing assistance. The recycling of voucher funds would ensure that the tax money spent on public housing will continue to support at least the same number of families.

The preceding proposals would benefit many current public housing tenants without increasing taxpayer cost. The public housing tenants who accept vouchers would

obviously be better off because they could have stayed in their current units on the old terms. They would move to housing meeting HUD's housing standards that better suits their preferences. Tenants who remain in public housing would benefit from better maintenance of their units.

The only public housing tenants who might be hurt by the proposal are tenants who want to remain in the projects that housing authorities decide to sell. Since it is impossible to justify renovating structures that reach a certain level of obsolescence and dilapidation, the initial opposition of a small minority of public housing tenants should not prevent benefits to the majority. Generally, public housing redevelopment has not required occupants' consent.

Given the difficulty of predicting all of the consequences of such far-reaching changes, we should start with a controlled experiment involving innovative public housing authorities willing to implement these proposals for a randomly selected subset of their public housing projects. This experiment would produce evidence on the effects of the proposals, and it would provide useful information for modifying them to avoid unforeseen negative consequences and achieve better outcomes.

Housing Voucher Program. Even though HUD's Housing Choice Voucher Program is the country's most cost-effective and equitable low-income housing program, it too offers opportunities for reform in the interest of poverty alleviation. The Housing Choice Voucher Program provides very large subsidies to its recipients while offering nothing to other families in similar circumstances.

In 2015, the national mean subsidy for a household with one adult, two children, and no countable income was almost $12,000. The poverty threshold for this family was about $20,000. A voucher subsidy of this magnitude enables its recipient to occupy a rental unit of about average desirability among two-bedroom units, that is, a unit with about the median market rent.

From the viewpoint of poverty alleviation correctly conceived, it is surely better to provide somewhat more modest housing to more of the poorest households rather than housing of this quality to a fortunate few. The current welfare system provides recipients of housing vouchers with resources well above the relevant poverty threshold, while leaving others without housing assistance well below it.

In the interest of ameliorating this inequity and reducing poverty without harming current recipients, new recipients could be offered less generous subsidies so that more households could be served with a given budget, and current voucher recipients could receive the generous subsidies that are offered by the current program. Because more than 10 percent of voucher recipients exit the program each year, this initiative will allow more families to be served each year without spending more money and will improve the program's equity. Eventually, all participants in the same economic circumstances would receive the same lower subsidy.

The new subsidy level could be chosen so that the voucher program could serve all of the poorest households that asked for assistance. At current subsidy levels, many more people want to participate than can be served with the existing budget. Reducing the voucher subsidy by the same amount for households at all income levels would make families currently eligible for subsidies less than this amount ineligible for voucher assistance. These are the currently eligible households with the largest incomes. This would free up money to provide vouchers to needier households that would not have been served by the current system.

By reducing the subsidies sufficiently, we would reach a point where all of the poorest households that ask for assistance would get it. Olsen analyzes the effect of alternative reforms of this type on who is served by the voucher program.[22] This reform would surely reduce evictions and homelessness, although these effects have not been studied.

Conclusion

The rapid growth of spending on entitlement programs for the elderly that will occur until they are substantially reformed will create pressure to reduce spending on programs such as low-income housing programs whose budgets are decided each year by Congress. In this situation, we should be focusing on how to get more from the money currently allocated to these programs.

Building new units is an extremely expensive way to provide better housing to low-income households, and subsidizing selected suppliers is especially expensive. Renting existing units that meet minimum standards is much cheaper. This also avoids providing recipients of low-income housing assistance with better housing than the poorest families ineligible for assistance. The proposed reforms will gradually move the system of low-income assistance toward more cost-effective approaches

[22] Olsen, "The Effect of Fundamental Housing Policy Reforms on Program Participation."

and enable us to provide housing assistance to millions of additional people without spending more money.

It is often argued that a shortage of affordable housing calls for subsidizing the construction of new units. This argument is seriously flawed. Almost all people are currently housed. If we think that their housing is too expensive (commonly called unaffordable), the cheapest solution is for the government to pay a part of the rent. The housing voucher program does that. This program also ensures that its participants live in units that meet minimum standards. Building new units is a much more expensive solution to the affordability problem.

Furthermore, it is not necessary or desirable to construct new units to house the homeless. The number of people who are homeless is far less than the number of vacant units—indeed, far less than the number of vacant units renting for less than the median. In the entire country, there are only about 600,000 homeless people on a single night and more than 3.6 million vacant units available for rent. Even if all homeless people were single, they could be easily accommodated in vacant existing units, and that would be much less expensive than building new units for them. Furthermore, most of the 600,000 people who are homeless each night already have roofs over their heads in homeless shelters, which are also subsidized. The best provide good housing.

Reducing the substantial differences in subsidies across identical households that characterize the current system would contribute further to poverty alleviation. It would help fill the gap between poverty thresholds and the resources of the poorest households. The current system provides substantial subsidies to recipients while failing to offer housing assistance to many others who are equally poor. Even among the fortunate minority who are offered assistance, the variation in the subsidy across identical households living in subsidized housing projects is enormous. The best housing projects offered by a particular program are much more desirable than the worst, but tenants with the same characteristics pay the same rent for units in either. Because the most cost-effective program offers the same subsidy to identical recipients, the shift away from other programs toward it will focus more of the system's resources on the poorest families.

PREPARED STATEMENT OF TRACY GRANT

PRESIDENT, EUREKA GARDENS TENANTS' ASSOCIATION

SEPTEMBER 22, 2016

I would like to thank Chairman Scott and Senator Rubio for inviting me to testify today. Almost exactly a year ago, I worked with the community of tenants that I lead as the President of the Eureka Gardens Tenants' Association to publicize the conditions that we have to live in every day. I would have scarcely imagined then that today, 1 year later, I would be testifying before this Committee today in Washington, DC. In the time I have spent at Eureka Gardens, I have seen and experienced both hardships and triumphs, and I would like to share some of those stories with you today.

My story begins in September 2010, when I applied for the apartment, signed my lease, got my keys and did the walk through. Even early on in my time at Eureka Gardens, I had to deal with mold in the kitchen and bathroom. Some days I would come home and the bathroom was flooded. This bathroom flooding was not done by me or my children, it just happened all by itself. The water even began coming into my room.

That wasn't everything, either. There wasn't an air conditioning unit in my apartment, like with many others. I had to pay the front office manager's husband $50 to put an air conditioning unit in the window. Now, I don't know how many people in this room have had to endure a Florida summer without air conditioning, but it's not a fun experience, and it felt ridiculous to me that I had to pay off the manager's husband in order to have a necessity like AC in my home.

But the problems at Eureka Gardens didn't stop once I walked out the door. Crime is prevalent in and around Eureka Gardens. There was even a shooting in the area that occurred not long after I moved there. It was then that I realized this was not an environment that I wanted my children to have to grow up in and I wanted to do something about it.

When another young man was shot in October 2014, a lot of the residents were fed up with the poor conditions created by the owner's neglect of the property and the crime it attracted, so we had a resident meeting. There, I realized that I wasn't the only resident that felt this way about Eureka Gardens, and at the next resident meeting I was elected Tenants' Association President.

The nationwide attention that Eureka Gardens has received for gas leaks, persistent mold, and lead poisoning has all occurred during my tenure as President. In September 2015—just over a year ago—there was a meeting with the Tenants' Association and the owner and management teams where we were supposed to talk about bringing new programs to the neighborhood. But at this meeting, everyone was so frustrated that it turned into a discussion of the conditions they were forcing us to live in.

We were so frustrated by the lack of changes at Eureka Gardens that on September 29, 2015, I wrote a letter outlining our issues and concerns and sent it to our local officials, including the HUD office. On October 2, 2015, I received a response back, and before you knew it we had Mayor Lenny Curry, Councilman Garrett Dennis, Pastor Mark Griffin, the fire marshal, the sheriff lined up in our support. I want to thank our local government officials for their strong support and commitment to our community during this time.

Even with all of this support, conditions did not significantly improve. Gas leaks sent some of our residents to the hospital, and persistent mold made it hard to breathe sometimes. Repair crews often did more harm than good, like when they had to shut off the heat in November. There was even a case where a child had a case of lead poisoning. Crime is still a problem. About a month ago, seven people were shot at Eureka Garden, including a 20-year-old mother of two.

The residents of Eureka Gardens have had to endure conditions like this for years, but now we are speaking together as one voice so that people can know what it's like to live there. I'm grateful for the public attention that our situation has received, but I know I speak for all of the residents when I say that what matters most to us are some real changes. Changes that help us live our lives without fear of crime or sickness. Changes that give our children a safe place to come home to after school.

I am here today because I want to make sure that we have better living conditions. I pray that if we are able to get a new owner, they will rebuild the apartments and make it better for the residents. Thank you for this opportunity.

PREPARED STATEMENT OF MAJOR JOSH LEWIS

RIVIERA BEACH POLICE DEPARTMENT, PALM BEACH COUNTY, FLORIDA

SEPTEMBER 22, 2016

Good morning,

My name is Major Josh Lewis of the Riviera Beach Police Department, a municipal police department located in Palm Beach County, Florida. I have been a law enforcement for almost 19 ½ years, all with the Riviera Beach Police Department. My professional training highlights include having attended the Southern Police Institute Command Officers Development Academy and the FBI National Academy. I also possess a Master's Degree in Criminal Justice, with a Major in Critical Incident Management.

The Riviera Beach Police Department initiated an investigation at the Stonybrook Apartment Complex, located at 1555 Martin Luther King Boulevard, Riviera Beach, Florida, in an effort to impact the various public safety, health, and quality of life issues at this apartment complex. Stonybrook, which was constructed in 1972, is an affordable residential development comprised of a mix of two- and three-bedroom, two-bath housing units. There is a laundry/maintenance facility and a community center on the property. Fourteen buildings house 216 residential rental units. The property sits on 8.67 acres.

Between November 28, 2012 and March 20, 2013, city officials held a series of meeting with representatives of MiamiMar, the property management company for Stonybrook, and Armando Fana, the Regional Director for the U.S. Department of Housing and Urban Development (HUD). The topics of discussion were the prevalence of criminal activity and property maintenance issues at this property.

Simultaneously, the property owner was notified of the existence of public nuisance conditions of the property; however, the property owner and their agent have resisted the attempts of city officials to compel them to implement strategies and improvements at their property and the public and other conditions continued to exist.

During this time, there were numerous drug warrants executed which resulted in numerous felony arrests. These arrests satisfied the legal standard to declare Stonybrook Apartments as a public nuisance. Property owners and HUD were notified of these findings. Research as early as 2012 revealed that GMF Stonybrook LLC, the property owner of Stonybrook, has a history of not maintaining the

residential units in decent, safe and sanitary manners; more specifically, in Memphis, Tennessee, and Jacksonville, Florida, where it has lost its Federal funding based on repeated code violations.

In March 2013, Stonybrook received a Notice of Violation for accumulation of debris, loose garbage, landscaping, and overgrowth, along with an assortment of other miscellaneous code violations. In June 2014, Stonybrook was declared to be a public nuisance pursuant to Chapter 11, Section 11–183 (1). The property owners stipulated to complete the following improvements which were designed to abate the ongoing criminal nuisances, to include securing access points of the property, to provide armed security, install security cameras, install a sliding access controlled gate, install landscaping, remove loose garbage, fix irrigation systems, paint exterior of the buildings, and add lighting.

In August 2013, at a Code Enforcement Magistrate Hearing, the owner was found in violation of accumulation of debris, loose garbage, landscaping, and overgrowth, along with an assortment of other miscellaneous code violations. The Magistrate allowed the owner 120 days to comply or fines would commence. The police department continued to monitor the property to ensure compliance with the Magistrate's order.

In May 2014, a Nuisance Abatement Status Hearing took place; after presenting evidence, the Magistrate found that the nuisance had not been corrected. As a result, the city and property owners agreed to extend the Magistrate's jurisdiction over the property until December 2014.

In November 2014, a Notice of Hearing to impose Fines and Claim of Lien hearing was held. The Magistrate found that the property owner had not complied with the order and the violations of landscaping and loose garbage remained.

In December 2014, a Nuisance Abatement Status hearing was held. At this hearing, the city provided evidence that Stonybrook was still not fully in compliance with the Nuisance Abatement Order, and that the landscaping and loose garbage violations were not corrected.

In January 2015, Stonybrook fired their property management company. The police department continued to monitor this property to ensure compliance with the conditions of the Nuisance Abatement and Code Enforcement cases.

In October 2015, a new case was heard before the Magistrate for continued public nuisance issues and again, the property was declared to be a public nuisance pursuant to Chapter 11, Section 11–183 (1). As such, the owners stipulated to improvements designed to abate the ongoing criminal nuisance, to include providing security services onsite, perimeter integrity to secure the entire property (front gate), surveillance systems, parking decal and towing system, and removal and/or eviction procedures. These improvements were ordered to be completed within 45 days. The police department continued to monitor the property to ensure compliance with the Magistrate's order.

In May 2016, a Nuisance Abatement Status Hearing took place. In this hearing, the Magistrate found the city provided sufficient evidence and testimony establishing Stonybrook as a recurring public nuisance. This was based in part through a series of drug sales which had taken place on the property.

In June 2016, with Stonybrook management compliance, city fire department personnel completed a detailed fire safety inspection of Stonybrook Apartments. In this inspection, numerous violations were identified pertaining to smoke detectors, sounders, lighting, and other life safety issues.

In May 2016, the city was contacted by Senator Rubio's office regarding an inquiry into violations at Stonybrook owner property for possible Department of Justice involvement. The city will continue to work hand and hand with HUD to address these matters, but diligent oversight and stringent monitoring will be paramount. The property owners have continuously failed to completely correct the Nuisance and Code issues present and show no inclination to do so.

PREPARED STATEMENT OF VINCENT F. O'DONNELL

AFFORDABLE HOUSING CONSULTANT

SEPTEMBER 22, 2016

Good morning, Chairman Scott, Ranking Member Menendez, and distinguished Members of the Committee. Thank you for the opportunity to testify regarding the process of HUD oversight of federally assisted multifamily housing.

I am Vincent O'Donnell, and am currently a private affordable housing consultant who has worked for over 40 years with State and local government, nonprofit developers, Local Initiatives Support Corporation, the Nation's largest nonprofit

community development intermediary, and resident organizations. My primary mission has been, and is, to promote the creation and preservation of safe, affordable multifamily housing. In many of these capacities, I have worked closely with HUD at the local and Headquarters leadership level on issues specifically related to assisted multifamily housing that has become distressed.

Today, I speak for myself, but want to note that I am a co-author of an August 1, 2016, letter from the National Preservation Working Group to HUD regarding the recent challenges that the U.S. Department of Housing and Urban Development (HUD) has been confronting regarding HUD-assisted properties experiencing conditions of distress and unsuitable living conditions for residents. The PWG is a broad coalition of organizations that have advocated for the preservation of federally assisted affordable rental housing. Its members include local and national nonprofit developers, policy organizations, tenant advocates, and State and local government. The PWG is convened by the National Housing Trust, a national nonprofit engaged in housing preservation through public policy advocacy, nonprofit real estate development and lending. This letter is attached to my testimony. In this testimony, I will summarize the PWG letter, while also attempting to put the current situation into a larger context. In my opinion, the overall system of providing project-based rental assistance is sound, and HUD has powerful asset management and quality control tools, but better coordination is needed to ensure that no property reaches the severe level of distress that has prompted the need for this hearing.

I think it is important to note that the overwhelming majority of project-based rental assistance properties are in good physical condition. The portfolio of properties that have brought us here today are unfortunate and unacceptable outliers, but were distressed when transferred to the current ownership.

Best practices for stabilizing and preserving distressed properties have been developed over several decades and are effective and vitally important in today's high-cost housing market. In the late 1970s, HUD was on its way to becoming the largest landlord in Boston, as a result of large scale foreclosure of properties with HUD-subsidized mortgages. One of those properties was Methunion Manor, in Boston's South End. This property's tenant association pointed out to then-Senator Edward Brooke that HUD's policies of ensuring a market return to the FHA Insurance Fund would result in their displacement from a neighborhood that was beginning to gentrify, in part because they and the Federal investment has helped to stabilize a previously distressed neighborhood. With the Senator's leadership, Congress gave HUD both a mandate and a set of tools to enable them to remain in this neighborhood, based on mutually reinforcing principles:

- long-range repairs,
- community engagement; and
- preservation of project-based rental assistance.

The result was the restoration to physical and financial health of Methunion Manor [as a housing cooperative], and thousands of other units in Boston. Since then, there have been other challenges to the retention of this affordable housing stock: prepayment of subsidized mortgages and resulting deregulation, and expiration of project-based Section 8 contracts, but those core principles have continued to be observed.

Resident and community engagement ensures that the property's physical and social needs are identified; adequate project-based rental assistance ensures the availability of financing for capital repairs and also retains a stock of units restricted as affordable housing.

Over the years, a toolkit has been developed for HUD portfolio oversight based on the preservation principles I mentioned. This toolkit also provides flexibility to tailor solutions to local needs. Some of what we've learned includes:

Most assisted properties are good physical condition. The National Housing Trust has reported that, according to HUD, 96 percent of its 23,198 multifamily properties have passing scores of 60 or higher on REAC inspections. The average passing score is 86.7 percent. Only 0.1 percent of properties score below 30, 3.5 percent score between 31 and 59 percent. In other words, although we must double-down on problem properties and their causes, this inventory is mostly successful.

- Early identification of problems and intervention are essential. HUD has now restored its Management and Occupancy Review process, which will enable HUD to look more deeply into issues affecting the property's operations than a REAC score alone can do. REAC itself can be a blunt instrument, not always revealing serious problems. Further, it would be of great value to be able to mine the REAC and MOR data to detect multiple problems associated with common ownership or management.

- HUD has recently redesigned its entire multifamily portfolio oversight function to align better with private sector asset management techniques and create more accountability, but it needs more careful allocation of resources for its oversight to reach its full potential.
- Mature properties undergo ownership transfers as a result of normal market processes. HUD's purchaser review process is an opportunity to ensure not only a strong owner committed to affordability, but a sound ownership and management plan that also reflects the property's true physical needs. The preservation community stands ready to support HUD in improving its existing tools for this essential process.
- HUD has many intervention strategies, but their implementation works best if there are clear thresholds for classifying properties as distressed, after consultation with local stakeholders. The experience of the Commonwealth of Massachusetts, the city of Boston and the local HUD office provide good examples of the positive outcomes of this approach.
- If a property has become distressed, remediation is urgent, both for resident health and safety, and also for long-term preservation. For this, resources are needed, and termination of assistance contracts should be a remedy of last resort: it displaces current residents from their homes and their social support systems, removes the long-term affordability from the property, and usually leaves a troubled asset to blight the community. Intermediate steps can be taken and, in the worst case where the current location is unsuitable, subsidies can be transferred to a new neighborhood with better opportunities.
- When a new owner takes over a distressed property, a combination of forbearance of enforcement and strong accountability is needed. Several years ago, in a different property in Jacksonville, where Eureka Gardens is located, a coalition of local stakeholders working with HUD and LISC was able to effect such a balance and that provided a window of time to make both immediate urgent repairs and to restore this major property to being a healthy community asset.
- Some of HUD's intervention tools require cooperation from other governmental agencies. For example, Congress has given HUD authority to seek a Federal receiver when it lacks mortgage enforcement rights, but this depends on the U.S. Attorney's willingness to participate. In addition to greater interagency cooperation, the powers and duties of such a Federal receiver should be clarified. For example, it is not clear whether such a receiver can require the sale of a property if that is found to be the only path to correction of problems.

Now we also have to recognize that best practices don't always work, since no system is perfect, which is why we're here today. Those of us in the affordable housing preservation community continue to work with HUD, residents and owners to ensure that these valuable Federal investments in our communities aren't lost. Now, more than ever, as our cities undergo recovery, assisted housing is now located in places that are on their way back to being neighborhoods of opportunity, and only place-based subsidies enable them to stay there.

Many Federal investments in affordable housing were sited based on economic considerations, with developers basically going where land prices fit budgetary constraints of the programs.

Many of those neighborhoods are now rising markets in which current subsidized housing residents have for decades helped stabilize these neighborhoods. These same residents now could not afford to live there, with or without a voucher, but place-based rental assistance enables them to remain in their community. On Monday, at a convening about neighborhood change, displacement and equitable development organized by the Federal Reserve Bank of New York, LISC and the New York University Furman Center, the constant refrain from around the country was that preservation of the existing affordable housing stock is integral to mitigating the negative effects on current residents of otherwise desirable rising neighborhood property values.

In conclusion, the portfolio of HUD-assisted affordable multifamily is an increasingly valuable asset that needs strong oversight as well as preservation. HUD has a powerful set of tools, and should be supported and held accountable in its robust application of these measures. Preservation of place-based subsidies is often the only way that low-income residents can afford to remain in vibrant urban communities or in rural communities where there is no other decent rental stock and one of few tools to ensure a stock of well-maintained affordable units. This point of view is complementary to recent efforts at promoting utilization of portable Section 8 vouchers in neighborhoods of opportunity. These efforts are not mutually exclusive.

PRESERVATION WORKING GROUP

August 1, 2016

Priya Jayachandran
Deputy Assistant Secretary, Office of Multifamily Housing
U.S. Department of Housing and Urban Development
451 Seventh Street SW
Room 6106
Washington, DC 20410

Dear Priya:

The undersigned members of the national Preservation Working Group (PWG) are writing in regard to the recent challenges that the U.S. Department of Housing and Urban Development (HUD) has been confronting regarding HUD-assisted properties experiencing conditions of distress and creating unsuitable living conditions for residents. This is an important topic and one that our organizations have raised over many years with HUD. We believe that these issues are best addressed by broader utilization and more consistent application and coordination of existing property monitoring and enforcement tools. In fact, we believe that more effective oversight and management of HUD's assets may require more focused attention from a smaller number of offices and individuals within HUD, rather than creating new tools and supervisory roles that overlay the existing system, which is often redundant, uncoordinated, and lacking in clear authority.

We propose a four-part strategy to immediately strengthen HUD's tools to enforce requirements to keep properties with federal project-based rental assistance safe and in good repair for residents. We have long advocated for strategies to maintain the quality and sustainability of the assisted multifamily housing stock, as well as a long-term commitment to its affordability. These comments and recommendations are based on our decades-long dialogue with HUD about preventive strategies, early detection of problems, and effective remediation. Notwithstanding the fact that truly distressed situations are the exception, our position is that every property in this valuable stock must be owned and managed to a high standard of excellence.

Intervention Strategies

HUD's recent document titled Industry Standard Repairs (July 5, 2016) is an important clarification, but we believe the Department can do much more with existing tools and authority and we welcome an opportunity to engage in dialogue with HUD leadership about our shared goals.

HUD should define a clear threshold for classifying properties as troubled, after consultation with stakeholders. Potential problems should be referred to an action team convened by the HUD Secretary to review conditions and recommend action. This could include representatives from field and Headquarters Asset Management, the Real Estate Assessment Center, the Department Enforcement Center, and the Office of General Counsel. The team should consult with state and local government, housing finance agencies, and other appropriate local stakeholders, including the tenants and their representatives. This team should be authorized to recommend remedial actions, commit resources, and take other actions to address conditions that are causing distress at HUD-assisted properties.

If the Secretary determines that an owner is in default on the assistance contract and/or the use agreement, HUD should impose an immediate prohibition on the owner taking distributions from the property where it has the authority to do so. HUD also should use its authority to seek civil money penalties, if appropriate, from defaulting owners.

Unfortunately, some properties have proven to have problems that HUD cannot resolve through negotiations with existing owners, and past efforts to put properties with chronic problems into receivership have not received the necessary timely attention. We urge the Secretary to work with the U.S. Attorney General to prioritize Justice Department resources to bring prompt legal action where necessary to protect taxpayer investments and living conditions for residents.

Where HUD believes that current ownership is unable or unlikely to correct deficiencies at the property within an appropriate timeframe, HUD should seek to place the property in receivership, as authorized by the contract and Section 225 of the Fiscal Year (FY) 2016 Appropriations Act or its successors. Designated receivers of troubled properties must have strong and clear tools to turn properties around, including:

- The ability to abate and/or renegotiate contracts, including management contracts;
- The ability to entertain offers to purchase the property by new owners, subject to HUD screening criteria;
- The ability to require a minimum level of capital repairs required to correct deficiencies and stabilize the property for sustainable operation; and
- The ability to fund required repairs by incurring debt secured by the property, or by requiring a sale to a qualified owner able to carry out necessary repairs.

In addition, HUD should work with local governments when appropriate to file for or otherwise support receivership in state courts.

In any action to change ownership, HUD should work with preservation stakeholders to establish a purchaser review process that is thorough (including underwriting of both the purchaser and the transaction), timely, and practical, including an expedited process for urgent situations. HUD should consider pre-qualifying potential purchasers as part of an expediting process.

Where properties also have FHA-insured mortgages, HUD has additional tools to improve performance or replace nonperforming ownership and management, all of which should be fully explored and utilized.

Remediation

The goal of these actions should be to arrest further deterioration, preserve affordable housing, and ensure decent living conditions for residents. Termination of assistance contracts should be a remedy of last resort, since it displaces current residents from their homes and their social support systems, removes the long-term affordability from the property, and usually leaves a troubled asset to blight the community.

Properties that have suffered chronic under-investment and poor management, sometimes for several years, require time for high-capacity, experienced owners to improve conditions. While resident health and safety must always receive immediate attention, HUD must provide appropriate forbearance to new owners of distressed properties so that they are not punished for the acts and omissions of the previous owners while seeking new resources for redevelopment. HUD should hold new owners accountable for clear timelines and milestones for short- and long-term improvements at the property, but should avoid the application of standards that discourage new owners from taking on troubled assets. HUD's past use

of Compliance, Disposition and Enforcement Plans (CEDP) is an existing tool that has achieved good results when applied consistently.

While termination is a last resort, both HUD's Notice H 2015-02 and the underlying statutes specify that contract abatement of assistance, in whole or in part, is a potential remedy that HUD should consider exercising under certain conditions. The threat of withholding of assistance until issues are resolved is potentially a powerful preventive strategy that HUD should employ more often when appropriate, although care needs to be taken before depriving properties of needed resources for repairs. All remediation strategies should carefully consider the impact of temporary or permanent relocations on tenants, in active consultation with local stakeholders, and with the need for rapid remediation.

Enhanced Screening

In recent years there has been increased interest by investors in purchasing HUD-assisted properties. We urge the Department to strengthen and standardize review of the transfer of Section 8 properties to potential new owners. HUD should uniformly apply screening criteria so that assignments of Section 8 contracts are reviewed in a similar manner as Transfers of Physical Assets (TPA), and that potential purchasers are reviewed to verify their experience with assisted properties; their track record; their commitment to fulfilling all use restrictions at the property; and their financial resources to address known physical needs of the property at the time of transfer. We recommend that HUD review the TPA process and solicit comments from stakeholders, including the undersigned, on appropriate changes for screening of HAP contract transfers.

Early Identification of Problems

Residents of HUD-assisted properties and local governments are natural partners in identifying properties with chronic problems with property conditions. Local governments have a direct interest through enforcement of code violations, and can coordinate actions with HUD, including early warning regarding problems. HUD should review and consider recommendations from stakeholders, including but not limited to the National Alliance of HUD Tenants, as a potential resource for identifying properties with emerging problems. For example, HUD should provide residents with opportunities to engage in both REAC inspections and Management and Occupancy Reviews (MORs). HUD's revisions of Chapter 4350.1 of the Section 8 Renewal Guide should reflect these opportunities as well.

In addition, REAC standards in some cases are outdated and in need of revision. Specifically, REAC inspectors should be tasked with identifying conditions including lead paint, toxic mold, and bed bugs. REAC inspections should be designed to trigger testing for environmental concerns when necessary.

The Office of Asset Management and Portfolio Oversight (OAMPO) should have the lead role in early identification and intervention with properties in distress or showing early signs of possible problems. OAMPO cannot succeed in this effort unless it is provided with adequate resources and authority to fill vacant positions, provide adequate training and travel funding, and take appropriate management and enforcement actions. Other oversight and enforcement entities at HUD should coordinate with OAMPO to inform and support this function.

We are eager to assist HUD in strengthening efforts to identify and address problems early. We share HUD's goals of ensuring the long-term affordability and quality of assisted housing.

Sincerely,

California Housing Partnership
Coalition on Homelessness and Housing in Ohio
Florida Housing Coalition
Housing Partnership Network
LeadingAge
Local Initiatives Support Corporation
Minnesota Housing
National Alliance of HUD Tenants
National Housing Law Project
National Housing Trust
Preservation of Affordable Housing
Rental Housing Information Network in Ohio
Stewards of Affordable Housing for the Future
The Community Builders

cc: Edward L. Golding. Asst. Secretary for Housing and FHA Commissioner

Additional Material Supplied for the Record