

**TESTIMONY FROM NYCHA EXECUTIVE VICE PRESIDENT FOR LEASED HOUSING CATHY
PENNINGTON AND HPD DEPUTY COMMISSIONER EVA TRIMBLE
HUD'S PROPOSED RULE ON SMALL AREA FAIR MARKET RENTS FOR THE SECTION 8
PROGRAM
COMMITTEE ON PUBLIC HOUSING
WEDNESDAY, OCTOBER 5, 2016 – 1:00 PM
COUNCIL CHAMBERS, CITY HALL, NEW YORK, NY**

Introduction (*slide 1*)

Chair Ritchie Torres, members of the Committee on Public Housing, and other distinguished members of the City Council: good afternoon. I am Cathy Pennington, NYCHA's Executive Vice President for Leased Housing. Joining me today is Eva Trimble, Deputy Commissioner for Financial Management and Tenant Resources at the New York City Department of Housing Preservation and Development (HPD). Thank you for the opportunity to comment on HUD's proposed rule to establish Small Area Fair Market Rents, known as SAFMRs.

New York City's Voucher Programs (*slide 2*)

The federal Housing Choice Voucher program, or Section 8, helps very low-income families afford safe, decent housing in the private market. Section 8 vouchers are funded by the federal government and administered by local housing authorities and agencies. NYCHA and HPD, together with the State, administer the largest Section 8 program in the country, with over 120,000 vouchers in New York City.

Hundreds of thousands of New Yorkers have stable housing and a pathway to opportunity thanks to Section 8 rental assistance. These families are among the City's most vulnerable and neediest: About half of the voucher holders are elderly or disabled, and most earn less than 30 percent of the area median income. The average household income for our voucher holders is just \$15,803. About three-quarters of NYCHA's Section 8 recipients live in the Bronx and Brooklyn.

Section 8 Program Overview (*slide 3*)

Section 8 voucher holders find and select housing that meets the program's requirements. They pay 30 percent of their household income toward rent, and the housing agency pays the rest, up to a maximum amount known as the voucher payment standard, which is based on Fair Market Rents (FMR) in the area.

Fair Market Rents (*slide 4*)

HUD establishes FMRs for cities across the nation. In New York City, the HUD-determined 2016 FMR for a two-bedroom apartment is \$1,571. For example, a family renting a two-bedroom in New York for \$1,500 a month pays 30 percent of their monthly household income, say \$300, and the housing agency makes up the difference with a subsidy of \$1,200.

Lower FMRs Mean Lower Rent Subsidy (*slide 5*)

If the FMR decreases, the housing agency pays less of a subsidy and the voucher holder is left paying a larger share of the rent.

HUD's Proposed SAFMR Rule (*slide 6*)

HUD has proposed a rule that would mandate the use of Small Area Fair Market Rents in 31 metropolitan areas, including New York City. Instead of a metropolitan-wide FMR, these SAFMRs would establish 188 different FMRs for each residential ZIP code in New York City.

The rule is intended to provide low-income families with more housing mobility options. We support its well-intended goal to open up more neighborhoods and housing choices for families, regardless of their income. However, we have concerns about the negative impact SAFMRs would have in low-vacancy, high-

rent cities like New York. There are serious concerns that the proposed change would not result in increased mobility, but would increase the rent burden, or in other words raise the out-of-pocket rent expenses for the majority of New York's Section 8 program participants.

Effect of SAFMRs in New York City (*slide 7*)

The bottom line is that in New York City, there's nowhere to move to. Our rental vacancy rate is 3.45 percent, which means that in a city of more than 8 million, only about 75,000 apartments are available at any given time. The vacancy rate drops to 1.8 percent (or 6,658 apartments) when you're talking about truly affordable units. This makes the search for housing difficult for any renter, but especially for voucher holders seeking affordable units. Consider this: Currently, nearly a quarter of voucher holders search for and cannot find an affordable apartment in New York City each year. It takes as long as a year for many Section 8 applicants to find housing because of the low-vacancy of the City's affordable housing stock. If this rule inadvertently narrows housing choice further, it could take NYC voucher holders even longer to find an affordable apartment to rent.

Doors would remain closed to low-income families seeking housing in high-rent neighborhoods because the subsidy – even if there were an increase with SAFMR – would simply not be enough to open up opportunities in NYC's high-rental markets.

And most concerning, nearly half of New York City's voucher holders – about 56,000 families – would see their share of rent go up, some by as much as \$400 a month, saddling them with a possibly unsustainable rent burden.

Those impacted are the ones who need the most assistance – 52 percent of households who would confront higher rents include seniors and people with disabilities.

Example of Impact on Tenant's Rent (*slide 8*)

For example, if a SAFMR in a certain ZIP code lowers the payment standard to \$1,300 from \$1,500, the family's share of the rent nearly doubles from \$300 to \$500. For some families, \$200 a month can be the difference between housing security and homelessness.

Examples of Lower SAFMRs in NYC ZIP Codes (*slide 9*)

As shown in the map, Section 8 recipients would face rent increases in 65 percent of the City's ZIP codes, including the Bronx, Staten Island, Manhattan, and Brooklyn. The proposed change hits the Bronx the hardest, from Kingsbridge to Highbridge: more than 21,200 households living in 9 ZIP codes in the Bronx would bear the brunt of these changes.

Additionally, there are a number of neighborhoods across the City where the proposed SAFMR is lower than the current FMR, even though statistics clearly show rising rents in those areas. In one ZIP code on the Lower East Side, for example, the SAFMR would be \$1,130, almost \$500 lower than the current citywide FMR of \$1,571. And in East Harlem, the median monthly rent for available apartments is over \$2,300 a month, while the proposed SAFMR is just over \$1,000 for a one-bedroom apartment.

With that, I'd like to again introduce my colleague from HPD, Eva Trimble, who will discuss our recommendations to improve the proposed rule.

[Eva Trimble:]

Thank you, Cathy, and good afternoon Chair Torres and Council Members.

HPD appreciates the opportunity to sit with NYCHA, voice our mutual concerns with the impact SAFMR would have on New York City, and to share our recommendations with you today.

In May, HUD published the proposed rule that my colleague discussed and opened it for a 90-day comment period. HPD and NYCHA jointly submitted comments that highlight our concerns about the proposed rule and make recommendations for ways to better address the challenges that HUD is attempting to overcome.

In our comments, we recommended that HUD make several key changes to the proposed rule so that it enhances mobility for voucher holders without negatively impacting current and future program participants.

Recommendations to HUD: Vacancy Rate Exemption (*slide 10*)

The formula HUD used to choose the 31 cities selected for what they say is the first round of mandatory SAFMR implementation did not account for rental vacancy rate, which we believe is a crucial area for consideration when looking at mobility.

We recommended excluding metropolitan areas with a rental vacancy rate at or below 5 percent from the mandatory use of SAFMRs. Again, we believe that in cities like New York, where very few apartments are available for rent at any given time, SAFMRs will not facilitate mobility. Instead, we expect that many recipients would struggle to find an affordable apartment in “high-opportunity” neighborhoods with high rents.

And reduced payment standards in the low-cost ZIP codes will not compel landlords to lower rents – it just means that voucher holders will struggle to afford the increased rent. If they can no longer afford to stay in their homes,

landlords can easily replace them with the many New Yorkers who don't have vouchers but have the incomes to move in.

Recommendations to HUD: Use More Recent Data (*slide 11*)

In addition to adding a vacancy-rate criteria to the SAFMR selection formula, we believe the formula to determine which cities are subject to SAFMR uses outdated data sources and is therefore not sufficiently sensitive to recent changes in many of our neighborhoods.

HUD's intent was to select public housing authorities that have a high concentration of voucher holders in low-income areas compared to unassisted market renters. However, HUD's data does not reflect the fact that many areas designated as low-income have actually seen rents rising considerably. For instance, we found that in neighborhoods which are becoming higher cost, the average SAFMR is only 87 percent of the current FMR. If HUD were to consider these changing neighborhoods in the data, then our voucher concentration would not meet the threshold required to be included in the SAFMR designation.

In addition, these data lags mean that SAFMRs do not reflect gentrification trends, and we recommend that the SAFMR formula account for a neighborhood's increasing rent trend. Our concern is that reduced SAFMR rental subsidies in these changing neighborhoods will lead to the displacement of the low-income families who have long called those neighborhoods their home.

Recommendations to HUD: Exclude PBVs (*slide 12*)

As HUD looks to implement SAFMRs, they are considering the inclusion of Project-Based Vouchers under the new rule, which we strongly opposed.

Project-based vouchers or PBVs – rental subsidies tied to units – are a critical tool for creating and preserving affordable housing, key goals of this

Administration and NYCHA's long-term strategic plan, *NextGeneration NYCHA*. NYCHA and HPD administer over 4,700 PBVs currently, and more than 3,000 are in the pipeline. Across the City, PBVs maintain neighborhood diversity and give low-income families the opportunity to live in high-cost neighborhoods. They house our most vulnerable populations, often providing supportive housing for seniors, veterans, the formerly homeless, and people with disabilities.

A reduction in rent subsidies with SAFMRs would seriously challenge the feasibility of many affordable housing creation and preservation initiatives.

For example, HPD recently financed a project that will provide supportive housing to 90 formerly homeless veterans in the Fordham Heights neighborhood in the Bronx. Under the proposed SAFMRs, this project would suffer an annual operating shortfall of \$45,000 and a \$2 million gap in capital funding in its current Bronx location. And if we wanted to move this same project to a SAFMR "higher-opportunity" neighborhood, say Chelsea for instance, to take advantage of higher subsidies, the project would still come up short. The extremely high acquisition costs in this type of neighborhood would not be offset by higher SAFMRs, and in this case the project would still see a financing gap of more than \$23 million, which City and other federal resources would be hard pressed to cover.

Recommendations to HUD: Alternative Models (*slide 13*)

Lastly, we recommended that public housing authorities be allowed to use alternative methods for achieving the SAFMR goals of improved mobility for voucher holders. Much of the research that supports HUD's emphasis on mobility for voucher holders in high-poverty neighborhoods stems from successful outcomes for families with young children who see verifiable benefits from a move to a higher-opportunity neighborhood. However, in New York City, the majority of our voucher holders are elderly and disabled, without children in their households. Our analysis shows that the broad strategy of SAFMRs is

unlikely to encourage mobility for these tenants. However, we do support the intended goals of mobility and access to higher-opportunity neighborhoods as a choice for families. Local strategies that are tailored to low-vacancy cities like New York may be more effective. For instance, HPD is exploring two tools that would work in conjunction to support mobility. Firstly, HPD is preparing a request to HUD for an Exception Payment Standard above and beyond what is currently permitted, which would allow NYC to offer increased payment standards within a set geographic area. HPD is also developing a mobility program that targets families who want to move to “higher-opportunity” neighborhoods. These strategies would combine to provide greater flexibility for those who want to take advantage of the “choice” in the housing choice voucher program. This effort would be based on a local definition of a “higher-opportunity” neighborhood, including those that do in fact have affordable apartments available to rent.

Thank you.

[Cathy Pennington:]

Conclusion (slide 14)

Thank you, Eva. Preserving and creating affordable housing, and providing invaluable rental assistance to hundreds of thousands of New Yorkers, is the heart of what we do. And we wouldn’t be able to provide stability and opportunity for families without the help from our City and federal partners.

While the intention behind the proposed rule regarding SAFMRs – mobility and opportunity – aligns with our mission, we believe that it can be improved to better serve New York City voucher holders. To put it this way, ZIP codes are for delivering mail, not defining neighborhoods.

Chair Torres, thank you for bringing attention to this critical issue. We support the resolution that you introduced with Council Member Williams which calls on the exclusion of New York City and other cities with a vacancy rate below 5 percent from the SAFMRs.

As leaders in the effort to keep New York City affordable for everyone, we must continue to work together.

Thank you, again. We are happy to answer any questions you may have.