

**STATEMENT OF DR. JOHN WEICHER
ASSISTANT SECRETARY & FHA COMMISSIONER
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**



**BEFORE THE
UNITED STATES SENATE
COMMITTEE ON AGING**

JUNE 17, 2003

Chairman Craig, Ranking Member Breaux, distinguished members of the Special Committee, on behalf of Secretary Mel Martinez, thank you for inviting the Department to testify on the subject of the Section 202 Supportive Housing Services program.

You have asked the Department to discuss specifically its views on the viability and need of the Section 202 Housing Program, the need for improvement in administrative performance and the processing of applications and the timely distribution of funding commitments. You also requested that the Department discuss its views on the recent General Accounting Office's (GAO's) report and specifically on GAO's recommendations for improvement in the administration of the program.

The Department is especially appreciative of your concerns as raised through the GAO review of this program. As with any program that has been in existence for a long period of time, there is always a need to re-evaluate the program's performance and to institute changes that will improve that performance. I am pleased to let you know that the Department, with the assistance of the GAO Report, has identified issues concerning the implementation of the funding and development processes and is instituting measures that will improve the Section 202 program.

Overview of the Section 202 Program

The Section 202 program provides an important resource to address the housing needs of one of the nation's most vulnerable populations, the low- to very-low income elderly. Along with the Low-income Housing Tax Credit, the HOME block grant, and Section 8 housing assistance, the Section 202 program makes a significant contribution to addressing these needs by providing affordable housing units, many with supportive services. Since the inception of the Section 202 program, established by the Housing Act of 1959, there have been over 350,000 units funded and the program has undergone at least two significant changes since that time. It has gone from a low-interest rate loan program without rental subsidy in 1959, to a loan program with project-based Section 8 rental assistance in 1974, and to its current operation as a capital advance program with project rental assistance in 1991. Under the current program, the capital advance is provided without interest and does not have to be paid back as long as the housing remains available for the intended population for forty years. Projects developed under the current program either provide or will provide supportive services dependent upon the service needs of the residents.

The Section 202 program provides an affordable and secure environment for the nation's low- to very low-income elderly. Based on the funding appropriated each year, more than 6,000 new units of Section 202 housing units are approved. These housing units, which are sponsored by nonprofit organizations, many of whom are faith-based organizations, have a history of serving the elderly, and they are committed to meeting the needs of this very vulnerable segment of the population for the 40-year term of the project and beyond.

GAO Report

The GAO Report reflects an excellent understanding of the importance of the Section 202 Supportive Housing Program in the delivery of affordable housing to very-low income elderly households. One of GAO's observations in the report, which further supported our belief, is that only a relatively small part of the unexpended funds, about 14 percent, are associated with pipeline projects that have exceeded HUD's 18-month processing time guideline. The report also verifies that the number of projects scheduled to reach construction start will double in the next six months, suggesting that the remaining projects represent an even smaller share of the unexpended balances, approximately 7 percent. The Department does not question the conclusions in the Report since they provide an indication of the progress we have made in reducing the Section 202 pipeline since 2001.

In a report prepared for GAO in early fiscal year 2002, the Department identified 118 Section 202 pipeline projects that had exceeded HUD's current processing time guidelines. As one might expect, these projects had some of the toughest issues that developers must address, such as environmental problems, funding shortfalls, litigation and contractor/staffing issues. Despite that, only seven Section 202 projects remain in the pipeline that were funded in 1997 or earlier. The Department is committed to closing these projects as soon as possible. We noted very early in our analysis of the aged pipeline that there are certain parts of the country where Section 202 closings rarely occur in 24 months. The GAO study noted this and early studies have also noted this. This project is located in one of those areas. When we meet with our stakeholders later this year we will discuss this issue and the current 18 and 24-month policy to get their input as we consider changes to the Section 202 program.

The Department certainly recognizes the importance of timely processing of applications for the Section 202 program and the Secretary has made it a priority. We believe substantial improvement has been made since the end of FY 2000, the concluding date for the analysis in the GAO Report. Due to increased Headquarters' monitoring, the number of projects reaching construction start within 24 months has increased by 10 percent. In addition, late in the last fiscal year, for the first time in 10 years, training on the processing of Section 202 applications through the development phase was provided for our field staff.

The Department has been aware for almost two years that in some areas of the country capital advances may be insufficient to cover the cost of developing Section 202 projects. If sponsors have to seek additional funds from other sources, the development time will be lengthened. We have initiated steps to examine how HUD's Section 202 development cost limits compare with other objectively measurable indicators of local construction costs. However, if the allowable per unit cost limitations were increased as a result of that review, there would be a reduction in the number of Section 202 units built. In addition, the successful partnerships that have been developed with states, localities and other interested parties over time to provide additional resources would be affected. This

is one of the issues we will explore with stakeholders of the Section 202 program early this summer.

In its recent report, GAO made recommendations to the Department to improve the administration of the program. Overall, the Department concurs with the recommendations and has the following specific comments:

- GAO recommended that the Department evaluate the effectiveness of the current methods for calculating capital advances. HUD has initiated steps to examine how HUD's Section 202 development cost limits compare with other objectively measurable indicators of local construction costs. We anticipate this evaluation will be completed in late spring 2004.
- GAO recommended the Department make the necessary changes to these methods based on this evaluation, so that capital advances adequately cover the development costs of Section 202 projects consistent with HUD's project design and cost standards. HUD will consider this recommendation. The Department will be discussing this recommendation with Section 202 program stakeholders this summer and completing the evaluation prior to making any changes to the current methods.
- GAO recommended that the Department provide regular training to ensure that all field office staff are knowledgeable of and held accountable for adhering to current processing procedures. As I previously have stated, during FY 2002, the Department provided training to field staff for the first time in ten years. Subject only to resource limitations, we are committed to continuing to implement an effective training program. Our next training will include technical processing training for field staff to assure that there is consistent processing nationwide.
- GAO recommended that the Department update its handbook to reflect current processing procedures. The Department has initiated the process of consolidating and updating the Section 202 program handbooks. We hope to complete this process by the end of FY 2004 so to allow the Department to incorporate any changes to the program as a result of the meeting with Section 202 stakeholders and completion of the cost limits study.
- GAO recommended that the Department improve the accuracy and completeness of information entered in the Development Application Processing (DAP) system by field office staff and expand the system's capabilities to track key processing stages. During FY 2002, there was an intensive effort to verify the accuracy of the information in the DAP system by HUD staff. The Department is committed to expanding the capabilities of the DAP system, and it is an Information Technology priority.

The Department is committed to strengthening the Section 202 program to better address the need for affordable elderly housing. GAO's assistance in monitoring this program and the Department's performance has been very beneficial.

Department's Commitment to the Section 202 Program

The Administration and the Department are committed to the ongoing viability of the Section 202 program. We are committed to working with you, with the nonprofit organizations that sponsor these projects, and with elderly persons eligible to reside in these projects to make sure that this program continues to be successful and a viable resource.

We are appreciative of the GAO study because it caused the Department to take a closer look at the performance of the Section 202 program and the Department's policies for administering the program. In the FY 2004 budget process, the Administration conducted its own assessment of the program, identifying several areas of weakness, including lack of performance measures, undefined long-term benefits and higher costs compared with alternative housing programs.

In response to these reviews, the Department has taken and is taking a number of steps to improve the program's performance, including the following:

1. Established a management plan goal that focused on the reduction of the aged projects in the development pipeline. This has resulted in a reduction in the projects in the aged pipeline from 118 projects in 2001 to 7 as of June 2003. This was accomplished through working with our senior leadership in Headquarters and the field to focus attention on getting aged projects to their initial closing as well as continuing to focus on the more recently funded projects. Senior staff in Headquarters communicated regularly and directly with the senior leadership in the field to discuss the status of the aged projects and has and will continue to provide the necessary Headquarters' assistance to get the projects to initial closing.
2. As stated above, the Department recognized that a large number of the staff processing Section 202 projects had never received any Section 202 development processing training because they were either new to the Department or new to the Section 202 program. Consequently, the first classroom training on the development processing of Section 202 projects in 10 years was held in FY2002.
3. The Department has strengthened the structure of the program by tightening the selection criteria for new projects. Because of the keen competitiveness of this program, the loss of even one point could cause an application to not be selected. Changes to the selection criteria in this year's Notice of Funding Availability include:

- a. Loss of 4 points if the Sponsor had a previously funded project that had been extended more than 48 months, 3 points if extended more than 36 months, or 2 points if extended more than 24 months, unless the delay was beyond the control of the Sponsor.
 - b. Loss of 1 point if the delay (unless it was beyond the control of the Sponsor) resulted in the need for amendment funds.
 - c. Loss of 1 point if the proposed site was not properly zoned.
 - d. Awarding 5 points to those applications in which the Sponsor's development timeline indicated their full understanding of the development process so it would result in the timely development of the project.
4. The Department has reviewed and verified the Development Application Processing (DAP) database so the pipeline data is accurate which allows the Department to manage the program effectively.
5. The Department plans to meet with Section 202 stakeholders this summer to discuss the Section 202 program and solicit their input on ways to improve the administration of the program.
6. The Department has drafted regulations to implement the Mixed Finance provisions of the American Homeownership and Fair Housing Act of 2000. The interim regulations, which will allow for use of low-income housing tax credits and other additional funding for Section 202 projects were recently submitted to OMB for review. We anticipate being able to publish these regulations during the first quarter of FY 2004. Although we recognize that the amount of time that the Department has taken to develop these regulations has been lengthy, this Administration initially focused attention on developing the procedures for certain existing Section 202 projects to refinance their mortgages- a priority to both the Department and Section 202 stakeholders. Consequently, it has taken us some time to develop policies to implement the statutory changes permitting mixed financing while at the same time insuring that the integrity of the program is maintained and that the interests of the population that these projects are to benefit are protected.
7. The Department will produce a plan this year to improve the Section 202 program's performance, which will include the development of meaningful performance measures. In the review leading to this plan, HUD will examine other policy changes or reforms to strengthen the program's performance.

In summary, the Administration and Department are committed to the ongoing viability and successful performance of the Section 202 Supportive Housing for the Elderly program. However, this commitment does not come without some challenges.

We are confident that working with you and other stakeholders this challenge will be met.

This concludes my statement, Mr. Chairman. Thank you again for the opportunity to appear before this Special Committee.