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LOW-COST HOUSING FOR THE ELDERLY: SURPLUS LANDS AND PRIVATE-SECTOR INITIATIVES

HEARING

BEFORE THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

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SACRAMENTO, CA

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MONDAY, AUGUST 13, 1984

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Sacramento, CA.

The committee met, pursuant to notice, at 10:30 a.m., in room 1664, Department of Education Building, Sacramento, CA, Hon. Pete Wilson presiding.

Present: Senator Wilson.

Also present: Maria Schutz, legislative aide; Sandra Dentinger, field representative; and Sally Rakow, State director.

OPENING STATEMENT BY SENATOR PETE WILSON, PRESIDING

Senator WILSON. Good morning, ladies and gentlemen. I am Pete Wilson, the junior Senator from California. I am very pleased to be able this morning, on behalf of my colleagues on the Special Committee on Aging, to convene a special oversight hearing.

We are delighted to have the attendance of a number of distinguished witnesses. And there seems to be a considerable amount of interest on the part of the public generally.

First, let me say that our intention in holding this hearing is to focus quite specifically on ways in which different levels of government—the Federal, the State and the local—can contribute to those who are concerned with providing adequate housing to the low- and moderate-income elderly.

We want specifically to take a look at the existing assets of government in terms of real property, their surplus lands, and focus upon ways that instead of simply lying fallow in the inventory of these different levels of government, those real property assets can be put to work, hopefully in a way that will allow mutual advantages and also contribute toward solutions of the problems of adequate sites for housing for the elderly.

The facts are that persons over 65 make up presently almost 12 percent of our population. Those numbers are increasing daily. It is estimated that we will have 63½ million citizens over 65 by the year 2030.

We know today that, as an interesting example and one not chosen at random, the Department of Defense holds millions of acres throughout the Nation and very considerable land here in California. The real question is, How can some of it be made available for the purpose of providing sites for low and moderate housing for the elderly.

Also, what we really hope to explore is not how can come of it be made available, but how can we expedite that process, how can we make it attractive both for the military, who are the present stewards of that land, and for the private sector, who need to be involved in a very creative fashion by local government.

We think that a little imagination and a concerted effort on the part of different levels of government can bring about a cooperation that will result in genuine profit to all concerned—literally, profit to the private sector, and the kind of satisfaction that comes to those of us who are concerned about housing for the elderly when we are able to see steel work actually coming up out of the ground that we know will mean homes and pleasant surroundings in the way of suitable housing for the elderly.

I stress that local communities have a very large role to play in establishing the priorities in our effort to try to determine whether or not there will be surplus lands, not just those held by the local governments themselves but also by those who are their neighbors in their locality, the State and Federal governments. We are going to be looking at the efforts of communities which have undertaken this kind of cooperation here in California. We have, in addition, witnesses representing the Federal and State and local levels of government.

I stress, further, that it is through the use of public and private sector efforts and cooperation that we will find new creative ways. Our purpose here this morning is to determine whether or not any additional legislation is required or desirable or whether any changes in regulations need to be made by the involved Federal agencies. Not only the Department of Housing and Urban Development, but other Federal agencies can assist in bringing about this kind of cooperation that will mean more housing for the elderly.

To highlight creative approaches, we will be hearing from these different individuals. In some cases, they represent years of experience in providing housing for the elderly. They represent the kind of imagination and experience with the private sector real estate market that I think is essential in bringing about the cooperation that we seek.

Finally, and perhaps most importantly, we will hear testimony from at least one individual who can give us a personal story as a resident in a senior housing development which was the result of local initiative and an innovative use of surplus Government-owned lands.

I declare this hearing open for testimony and will invite the testimony of our first witness.

Alice J. Gonzales is currently the director of aging for the State of California. She shares the concern that we have specifically about housing this morning. Obviously, the broad range of her concerns includes all of those that pertain to the problems and opportunities for California senior citizens.

Prior to her appointment in her present position, she was director of the Department of Aging for San Mateo County, director of community services for Daly City. Ms. Gonzales' numerous contributions to her community include service at the United Way, chairperson for San Mateo County, and a member of the American Cancer Society Board, and the Manpower Planning Council.

Ms. Gonzales, we thank you for being here and we welcome your testimony.

STATEMENT OF ALICE J. GONZALES, SACRAMENTO, CA, DIRECTOR, CALIFORNIA DEPARTMENT OF AGING

Ms. GONZALES. Good morning, Senator. My name is Alice Gonzales, for the record, and I am the director of the Department of Aging, State of California.

I want to thank Senator Wilson for giving us this opportunity to submit testimony and also to speak on the shortage of housing for elderly Californians, a critical issue.

I suspect that seniors feel that it is there No. 1 or 2 priority.

Senator, it is our pleasure to have you here today and my pleasure to have been able to submit the testimony in writing to you and to allow for some very important people to provide testimony. I will only touch upon the written material that I have submitted.

First, I must comment that Governor Deukmejian is aware of the housing shortage in California and most recently approved a housing package designed to address five primary goals: To increase the housing supply, to reduce the housing costs, to work in partnership with local government, to attract new businesses to California, and to address special housing needs—and special housing needs, of course, of the elderly.

The Governor's housing package refutes the October 1983 Rand study, which revealed that there was no housing shortage in the State of California. According to most recent reports that we have on record, an average of 230,000 housing units must be built annually in the next decade to afford and to provide housing needs in the State of California.

We who work with the elderly and address housing concerns of the elderly know that the California housing crisis is real. We believe that the package of legislation and this administration action that Senator Wilson is bringing to us is an important step toward addressing our State's housing problems and it is certainly consistent with both the economic goals and the administration fiscal constraints that we face in our State.

Furthermore, Governor Deukmejian most recently approved a package of senior initiatives, which explores housing alternatives that seek to emphasize the utilization of existing housing stock, through shared housing concepts, cooperative living arrangements, and home equity conversion plans. The benefits of shared housing concepts include not only the immediate economical advantage of shared expenses, but also the social benefits of no longer having to live alone or in isolation.

In my closing remark, I would like to say that it is one of my greatest concerns and goals to achieve housing for seniors, housing that they would find comfortable, the quality of the standards that they should expect. Decent, safe, and sanitary shelter is one of life's bearest necessities. And I am hopeful that the options that we will be exploring here today concerning the use of governmental surplus lands combined with the private sector participation will result in new alternatives in the development of more low-cost housing for the elderly.

Thank you, Senator Wilson.

Senator WILSON. Thank you very much, Ms. Gonzales. We are grateful for your comments and your statement. Your prepared statement will be entered into the record at this point.

[The prepared statement of Ms. Gonzales follows:]

PREPARED STATEMENT OF ALICE J. GONZALES

My name is Alice Gonzales and I am the director of the California Department of Aging. I want to welcome Senator Pete Wilson and his staff to California and thank Senator Wilson for giving me this opportunity to speak on the shortage of housing for elderly Californians.

According to a recent study conducted by the University of Michigan, longer lifespans and a rapidly increasing population of elderly citizens—including many who choose to pursue "independent lifestyles" away form their families—will combine to create tremendous demands for housing in the United States in coming decades. Experts say that the Nation will need as many as 235,000 units of new housing each year over the next 20 years to meet the demand.

In California, the elderly population is composed of 3.7 million individuals who are 60 years of age and older, representing 14 percent of the State's total population. Between 1970 and 1980, the elderly population increased by 35 percent. Thus, the combined effects of longer lifespans and a rapidly increasing elderly population have contributed to the pressing social need for more senior housing in California.

While the needs of the elderly homeowner or renter are not entirely dissimilar from other persons in the population that have a very reduced income, there are some very special problems that are confronted by the elderly citizen looking for housing in California. Due to the high pecentage of seniors living alone (as high as 50 percent by some estimates) elderly households constitute 20 percent of California's total housing stock. Elderly persons living alone or with nonrelatives are likely to have low incomes with 60 percent receiving $6,000 or less. Nearly a third have incomes under $4,000 while only 18 percent received $10,000 or more. Subsequently, the low incomes of senior citizens puts them at an extreme disadvantage when attempting to acquire housing units.

Senior citizens must also contend with the very low rental vacancy rate that presently exists in California. The vacancy rate is slightly over 3 percent while 5 percent is considered a healthy housing market vacancy rate. In the urban centers, where seniors very often need to live, to be close to various supportive services, the vacancy rate is often below 1 percent. As a result, seniors often must pay more than the usual 25 percent of their income for housing accommodations. In fact, the senior citizen seeking to live in the low-rent areas of the inner city which is appropriate to income limitations, health service needs, and mobility limitations, is competing with other subcultures—the unemployed, the low salaried wage earner, and the college student.

Another figure that is particularly notable is that senior citizens live in a disproportionately higher percentage of housing which is 30 years and older. That figure is significant because this housing stock is usually in need of rehabilitation. Elderly homeowners who have low or medium incomes frequently do not possess the resources to absorb tax burdens and maintenance expenses to adequately maintain their aging residential property. Consequently, many must use reserve resources to maintain their homes—perhaps at the expense of nutrition and health care and other necessities of life.

Further hardships are imposed on elderly renters by condominium conversion. Preliminary data contained in a study by the U.S. Department of Housing and Community Development indicates that the elderly represent a significant portion of the metropolitan population affected by conversions. Survey data have established that 37 percent of persons displaced in the conversion phenomena are elderly persons.

The urban elderly is not the only group that has been adversely affected by these and other trends. The rural elderly have also been confronted with another set of circumstances. Senior citizens comprise an increasing percentage of California's rural population. The rural area has become increasingly attractive to urban retirees seeking the environmental and health advantages of country living.

A January 18, 1981 article in the Los Angeles Times disclosed that: "For the first time in the modern history of California the State's rural areas are growing faster than its urban areas." Over the past 10 years, rural counties have grown three times as fast. Percentage gains in rural counties have been dramatic: 126 percent in Alpine County; 114 percent in Mono County; 96 percent in Nevada County; 94 percent in El Dorado County. Of the top 10 fastest growing counties in the State, all are rural, and 8 are located in the Sierra foothills or high Sierra.

The major part of this growth can be attributed to one significant trend—the in-migration of urban Californians to rural areas. This trend has resulted in escalating housing prices and a serious shortage of affordable units for the local population. While the number of home seekers in rural areas is growing at a faster rate than statewide, production of new housing units has not kept pace, leading to the high cost of existing housing.

In addition, the houses that are being built are usually priced and sized to match the income of in-migrants to the exclusion of year-round residents making their income in traditional rural occupations. Those in-migrants who take their equity out of a home in an urban area can afford to purchase an existing or new house at inflated prices well beyond the reach of current rural residents.

Condominium conversion, commonly thought to be an urban phenomenon, is becoming a rural isue as well. From apartment buildings in Del Norte County to trailer parks in Inyo and Mono Counties, condominium conversion is threatening to displace seniors with fewer low-cost housing options than in urban centers. For any senior, displacement means a severe financial and physical hardship. It is estimated that seniors facing displacement in Crescent City would incur moving costs of $600 to $700 for first and last month's rent, utility hookups and security deposit.

Finally, for those rural seniors requiring residential board and care facilities, lack of housing too often results in inappropriate institutionalization locally or relocation to metropolitan areas, away from family and friends, where facilities are available.

Governor Deukmejian is aware of the housing shortage in California and recently approved a housing package designed to address five primary goals: to increase the housing supply, to reduce housing costs, to work in partnership with local government, to attract new business to California and to address special housing needs.

The Governor's housing package refutes the October 1983 Rand study which revealed that there is no housing shortage in the State of California. According to recent reports, an average of 230,000 housing units must be built annually through the next decade in order to facilitate California's housing needs.

In 1982, only 80,000 units were built, while 160,000 units were built in 1983. About 185,000 housing units are expected to be built this year. Four percent of all housing in the State is in such substandard conditions it needs to be replaced. Nine percent of all housing needs to be rehabilitated. Over 2 million lower-income households pay more than 25 percent of their income for housing.

According to Susan DeSantis, director of the California Department of Housing and Community Development, "The affordability gap is much greater for people in California than in the rest of the United States. The 1984 forecast for the median priced home in California is $118,000, which is 60 percent higher than the national median home price of $74,000. Yet, the average household for a resident of our State only earns 7 to 9 percent more than the national average.

"As we are all well aware, California's housing crisis is real. We believe this package of legislation and administrative actions is an important step towards addressing the State's housing problems, and it is consistent with both the economic goals of the administration and fiscal constraints we face."

Furthermore, Governor Deukmejian recently approved a package of Seniors' Initiatives which explores housing alternatives that seek to emphasize the utilization of existing housing stock through shared housing, cooperative living arrangements and home equity conversion plans.

The benefits of the shared housing concept include not only the immediate economical advantages of shared expenses, but also the social benefits of no longer living in isolation, being afraid of medical emergencies and worrying about the increasing incident of crime. Shared housing programs enable an overhoused elderly homeowner to maintain property owenership while providing unused space to an elderly renter.

In closing, I should say that, decent, safe and sanitary shelter is one of the bare necessities of life. I am hopeful that the options that will be explored here today, concerning the use of governmental surplus lands combined with the private sector participation, will result in new alternatives in the development of more low cost elderly housing.

Thank you.

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Senator WILSON. We will be entertaining testimony from four panels this morning. In addition to Ms. Gonzalez, on the first panel is Rev. Clark Harshfield. Is Reverend Harshfield present?

Reverend Harshfield is the executive director of the Retirement Housing Foundation in Los Angeles. We have invited him here to address the current attempts by nonprofit organizations such as the Retirement Housing Foundation to find innovative financing for low to moderate housing for the elderly.

We understand, sir, that you are currently working on the concept of a housing thrust with a member of the staff, former HUD Secretary Carla Hill. We are particularly interested in hearing your information on that concept. Welcome.

STATEMENT OF REV. CLARK HARSHFIELD, EXECUTIVE DIRECTOR, RETIREMENT HOUSING FOUNDATION, LOS ANGELES, CA

Reverend HARSHFIELD. Senator, I am delighted to be here. The Retirement Housing Foundation has developed over the past 23 years over 8,000 units of senior, with another 1,000 or so on the way. Government—Federal, State, and local—has traditionally been dedicated in an enlightened manner to finding ways to provide housing for low-income older Americans.

The Federal Government, beginning in the middle 1950's developed a series of programs through what was FHA at the time, and later HUD, programs entitled section 231, later section 202, then 221D3BMIR, section 236, and finally revised seciton 202/section 8.

All of these programs were directed toward assisting older Americans of more limited means to find adequate housing and support ervices. However, after what—30 years?—we find ourselves prob- ly today in no better state than we were 30 years ago. The great ed, accelerating need for more adequate housing for older citi- is is so great as to cause us all, of course, to rack our brains to d better solutions. And that's why we are here.

We are delighted to offer what little testimony we have to that rpose.

If such land and assets could be made available, either in long- rm leases at discounted rates or as grants, whatever, the hous- ig—the cost of rental housing to older citizens could be reduced nywhere from 10 to 20 percent over what new housing would cost n the market.

It is generally considered that raw land constitutes about 10 to) percent of the cost of development of a new housing unit. De- nding on the area, it could be higher than that. But, generally peaking, we have tried to contain land costs within those brackets. With the aid of Federal, State, and local units in the past, that has been possible. With the use of Federal lands, State or local lands, that would continue to be possible.

There are, however, other elements needed if affordable housing is to be developed in any quantity today. The nonprofit sector, so-called, has been able to use in California and some other States property tax exemptions, one additional element of discount. Also, they have in some instances been able to use on a spotty way charitable contributions from individuals or corporations or government entities.

Then, of course, in the past there has been the section 8, or direct assistance payments by the Federal Government. Under the stress of Federal deficits and the trends in this country, we look forward to a further diminishing of the direct subsidy to the elderly citizen for housing purposes. And we are looking more and more to the private sector to find ways to build affordable housing for the older citizen.

The use of limited partnerships is generally used in the private sector and can theoretically contribute. As much as 20 or 25 percent of the cost of housing can be subsidized through that device.

If all of these elements of possible discount are piled one on another in a patchwork way, it is theoretically possible for the private sector today to develop housing for approximately 50 percent of what it would be under straight market conditions—or to bring housing, say, for a one-bedroom unit of 550 square feet, which is a standard FHA model with one bedroom, kitchen, bath, and living room, along with the amenities within an apartment structure—it is possible to bring that kind of a unit on the market and rent it for as little as $300 a month, a project which would probably cost $550 to $600 a month under straight market conditions.

While this does not reduce the cost of housing to the levels which low-income persons by the HUD definition today require, it at least brings or would bring housing into an affordable bracket for most elderly persons.

The Voucher Program, which has been considered and talked about by the administration, could fill the gap then for countless persons in a much larger way than the present disbursements are required under section 8.

So all I have to say, Senator, is the resources of the Federal Government through lands and assets, State and local lands too—if they can be made available, that would be a very substantial element in the creation of discounts for future low-income affordable housing.

The Retirement Housing Foundation is currently endorsing and fostering, trying to find the resources and the contacts for the development of what we prefer to call a National Retirement Housing Trust which would bring together many of the nonprofit agencies that are in the field and also proprietary developers—labor unions, corporations, pension funds—to create a much larger resource and central sophistication staff for the development of affordable housing.

The more unique aspect of the thought is that under a nonprofit umbrella, to use syndication proceeds and channel those proceeds back into the nonprofit treasury would assure the maximum use of the syndication technique for the lowering of rents to the future renter, older citizen.

That was the extent of my presentation, Senator. I am delighted to be here.

Senator WILSON. Thank you very much, Reverend Harshfield. Let me just ask a question. I was interested in noting you expressed your support for the proposal for the use of the housing vouchers.

Reverend HARSHFIELD. In my judgment, the Voucher Program may or may not assist the development of new facilities. However, the program should make it possible for recipients of vouchers to find improved housing accommodations. If under the various subsidies I have enumerated rents can be brought low enough, then, of course, the voucher program will be effective and stimulating new construction. Otherwise, the vouchers will not enable new construction to be put in place.

Senator WILSON. I gather that you think that that would only facilitate the effort of your foundation. What we are really looking at this morning is the focus upon new construction.

Reverend HARSHFIELD. Yes, it is true that our focus should be on new construction because it is badly needed. This would apply also to a lot of rehabilitation programs, renovation of existing structures. The same techniques could be applied in many instances to lower rents still further, depending on the particular property.

Senator WILSON. Well, I thank you for being here and also appreciate your offer to place in our record a copy of the concept of the National Retirement Housing Trust, as prepared by former Secretary Hill.

[The prepared statement of Reverend Harshfield follows:]

PREPARED STATEMENT OF REV. CLARK HARSHFIELD

We are here today because of the pressing need for more housing and assistance programs for older Americans. Our aging society will need many hundreds of thousands of new sheltered housing units over the next few decades for our senior citizens. Housing forms and styles with varied programs for life enrichment and health support will be demanded.

Governmental programs have been generous in the past, but hardly sufficient to meet the needs of yesterday, let alone tomorrow. Future housing programs must be provided on a larger scale by the "private sector." The "private sector" has always been able to supply housing units for those who could afford them, but the private sector has been unable to produce "affordable" housing for millions of new low-income elderly.

Since the National Housing Acts of the early 1950's, various assistance programs have been available to builders for affordable housing. Government agencies will continue to assist low-income seniors find adequate housing and support services, but we do not expect such aid to be on the scale of recent decades. One of the possible forms of future assistance could be found through the use of surplus Federal lands and real properties.

Various governmental agencies, Federal, State, and local, have land and properties which are "surplus," having little or no real current return of value to them.

It seems only prudent, as well as socially beneficial, for such properties or lands to be made available for the building of needed housing shelters and forms to serve our older Americans. Lands could be leased or granted to private developers with conditions requiring the fulfilling of social objectives. Long-term leases or deferred mortgages could be placed on them so as to return to the governmental agency a future dollar value.

Raw land usually comprises as much as 10 to 20 percent of the final cost of a housing project. If that percentage could be granted for a period of 30 to 40 years, the long-term benefit for housing would be very great.

For future housing to be affordable, other direct and/or indirect subsidies will also be required. Other programs currently in use are:

(1) Capital gifts by local or State governmental agencies, usually from "block grant" or UDAG funds, and similar programs.

(2) Tax exempt financing, currently available in several ways.

(3) Property tax exemption for nonprofit sponsors is available in some States and jurisdictions, but not in all areas.

(4) Charitable contributions to nonprofit sponsors is a valuable but very limited and spotty resource.

(5) Syndication proceeds by developers can be used in "capital formulation" and/or in subsidizing rents.

(6) Syndication strategies used by nonprofit sponsors ssure a maximum return of profits devoted to cost reduction of a project and/or provide resources for direct assistance to low-income persons.

It should be possible through a combination of the techniques above mentioned to bring housing costs to an "affordable" level, namely:

(a) Profit motivated developer: Land grant, 10 percent reduction; tax exempt funding, 15 to 20 percent reduction; syndication, 15 to 20 percent capital reduction. Total reduction: 40 to 50 percent.

(b) Not-for-profit developer: Land grant, 10 percent reduction; tax exempt funding, 15 to 20 percent reduction; real estate tax exemption, 5 to 8 percent reduction. Total reduction: 30 to 38 percent.

Our hearing today concerns the possible use of Federal lands for housing for the elderly. I see only good results coming from such a program, and urge a speedy consideration of the concept by the Congress.

I would also like to place before you the concept of founding a "national retirement housing trust." The trust would bring together the interests of a range of "not-for-profit" sponsors and profit-motivated developers. Hopefully, the trust would appeal to major corporations, unions, and pension funds.

I am submitting herewith a copy of the concept and function for the National Retirement Housing Trust, as prepared by Carla Hills of the offices of Latham, Watkins & Hills at the request of Retirement Housing Foundation over a year ago.

Further suggestions from the field and support of the concept will be appreciated.

Senator WILSON. Our second panel will be one which focuses on the experience of one community in attempting at the local level to try to make use of surplus lands and the cooperation of the private sector in securing housing for the elderly. It is a pleasure for me to welcome to this meeting some old and very dear friends. These gentlemen are all from the city of San Diego and represent in their different ways the kind of team that I think is generally essential.

Ivary Williams is a resident, who can give us the perspective of someone who is on the receiving end of all this concern about housing for the elderly. Notwithstanding the fact that I have far more gray hair, than he, he qualifies and I don't yet, for that kind of housing. So, he will be able to provide us with the perspective.

The gentleman seated in the center of the panel at the table, Lee Grissom, is here wearing two hats. First, what he does daily, is to serve as president of the San Diego County Chamber of Commerce, a position vitally concerned with economic development and the generation of jobs for the San Diego County area. But, in his second capacity, he is chairman of the San Diego City Housing Commission and has devoted a great deal of time as a private citizen, volunteering in that capacity. His dual role is particularly interesting because in his first capacity he is in constant contact with business leadership for his community, including those who are concerned with construction and development. And, being knowledgeable about that, he is in a particularly happy position to serve as a bridge or a broker between private sector, those who are for-profit developers, and the market for the kind of housing that we are talking about today, which really is the work of the commission. The San Diego City Housing Commission is concerned with providing housing both for low-income families and for the elderly.

Our third witness is Ben Montijo, who is the executive director of the San Diego City Housing Commission, and he brings a vast background and experience. He has served for some time in his present capacity, and prior to that was involved as the executive director of the Fresno City and County Housing Authority. Prior to that, he served as the deputy city manager for the city of Scotsdale, AZ.

I happen to know a good deal about these three gentlemen because I was privileged to be a coworker of theirs for some time. Ben Montijo came to the job after a rather exhaustive talent search to find the proper executive director for what was a new position in the city of San Diego.

I am going to call upon them in somewhat different order than I introduced them. We at first were going to have only Mr. Montijo, and the others are more than a bonus. I think that what we would like to hear, gentlemen, in the time that we have with you, is precisely how you think that the experience in San Diego is applicable to other communities, and what, based upon your experience there, you think are the changes that the Federal Government could bring about to allow you to be even still more effective in arranging more housing for the elderly.

Let me call first upon Mr. Grissom, who is, as I indicated, president of the chamber of commerce there and also chairman of the housing commission.

STATEMENT OF LEE GRISSOM, CHAIRMAN, SAN DIEGO, CA, HOUSING COMMISSION

Mr. Grissom. Thank you very much, Senator Wilson. We are absolutely delighted to have been invited to testify before you this morning.

I hope to provide you, and certainly members of this distinguished audience, some insights into the issue of affordable housing and particularly how we have been addressing the subject in San Diego, CA. For some of you in the audience, this may be instructive and will be new information. For you, Senator, this may well be repetitive inasmuch as, indeed, you were the father of the San Diego Housing Commission. And, while serving as mayor of our fine city, you were instrumental in what I perceive to be the cornerstone of the success of our housing commission, particularly the creation of a substantial number of new units through the designation of surplus city-owned sites for housing.

The San Diego Housing Commission has positively influenced the perceptions and indeed changed the attitudes of many in San Diego toward public-assisted housing. Much of the credit is due to the approach we have taken in terms of combining public responsibility and private sector initiative and creativity to provide the much needed public housing. These efforts have resulted in increased housing supply for both new sales units and rentals, while decreasing the operating costs related to low-cost housing. This has benefited local government and provided affordable housing to a large number of needy San Diegans.

And I might also add that it has aided the private sector through creating new development opportunities for firms that would not have had the opportunity without the designation of this surplus property.

Today, we hope to impress upon you the need for continued effort required from all levels of government to ensure that adequate and affordable housing will be made available to our senior citizens and that every possible asset is used to reach this objective.

We must encourage creativity and we shall build upon a foundation of private and public sector partnership.

We have prepared a brief presentation by our executive director, Ben Montijo, on how surplus Government land can be converted to a more productive use. We have already had success with this concept and strongly believe that it can be implemented in many other areas throughout this country.

Although you are all aware of the need for affordable housing for elderly citizens, we have also invited an expert to provide you with some insights into the needs of elderly Americans. Ivary Williams is a tenant of assisted housing and is also very much involved with senior citizen activities in San Diego. Both he and his wife, Roberta, have received considerable recognition for their efforts and involvement in senior citizen activities. And just 3 months ago, President Reagan cited Mr. Williams for his activities.

Ladies and gentlemen, at this time I would like to introduce our executive director, Ben Montijo. Thank you.

STATEMENT OF BEN MONTIJO, EXECUTIVE DIRECTOR, SAN DIEGO, CA, HOUSING COMMISSION

Mr. MONTIJO. Thank you, Mr. Grisson. Thank you, Senator.

Senator, those of us who served under your leadership in the city of San Diego know that you are very familiar and very concerned with affordable housing for the elderly. We know you understand housing economics, and we know that you understand the benefits of utilizing surplus sites.

We are here to describe, demonstrate, and give evidence as simply and precisely as we can about how surplus public lands can be used to make housing affordable for the elderly and how this investment can be recaptured and reinvested. The facts and figures will be related to San Diego, but they can apply anywhere.

Let me take it sequentially. The first issue is: What is affordable housing for the elderly? At what cost is it affordable? In our community, given the median income and given the budget rule that housing costs should not exceed 30 percent of income, the mathematics conclude that affordable rental housing for elderly persons at the upper end of low income is $250 to $275 per month. That is our target.

In order to reach those elderly that are very low in income, the mathematics concludes that the rental rate ought to be $150 to $175 a month. That's a secondary target.

Given that objective, the second question is: What are the rent levels right now in the city of San Diego for one- and two-bedroom units for elderly persons. All the surveys agree—the Government surveys and the private sector surveys—that the rents in the city of San Diego are in the neighborhood of $400 for a one-bedroom unit and $260 for a two-bedroom unit. That is for existing developed housing, not newly developed housing. They are at $400 to $460, and they need to get down to about $250 to $260 to make them affordable.

Since the costs of development and owning existing housing are already set, the only way they can be made affordable is to use some housing assistance payment program, such as the section 8 or the Housing Voucher Program. But that cannot be an effective way because there is a long waiting list in our community of 9,000 households waiting for affordable units and there is a limited supply of existing housing with a near zero vacancy rate.

Therefore, we need to look toward increasing the supply of housing, and at the same time making that new supply affordable.

That brings us to the next question: How can we increase the supply and how can we make it affordable to elderly persons? I would like to call your attention to a table that I have prepared and briefly take you through it. Let me briefly take you through the economics of rental housing.

Costs	Conventional Development	Tax Exempt Financing	TEF and deferred land lease
Land	$12,000	$12,000	0
Construction	20,250	20,250	$20,250
Financing	5,250	5,500	2,500
Total Development	37,500	37,750	22,750
Monthly debt service	375	272	164
Operating cost	100	100	100
Rental rate	475	372	264

If you will give your attention to the first column, I have divided the cost of developing housing in three major categories. There is land cost, and in our community it is generally running around $12,000 per unit. There is construction cost, including all hard and soft costs. Then, there is financing costs. If you total those, it means a unit will cost $37,500 to develop.

Then, if you go to the lending institution at today's rates of about 14.75 percent interest rate and you look at the mortgage table, the principal and interest to payments on this loan—an 80-percent loan with the developer putting up 20-percent down payment—the payment is going to be $375 a month. But that's just principal and interest.

Then, there are operating costs. Taxes have to be paid—insurance, utilities, maintenance, and repair on the units. If we use $100 per unit per month, that means the minimum rent that that owner can charge is $475. It's not that he wouldn't like to charge less. That's the mininum he has to charge. That's the economic facts of rental housing.

Now, I would like to take you through a second example of how to bring that down. If you will give attention to the second column of the table, the land costs and the construction costs remain the same. But in this case we're suggesting use of tax-exempt financing. The up-front cost is slightly higher because there's a large cost for obtaining that money. The underwriting costs are all paid up front. However, the permanent financing over the loan period of that project will be considerably less. Our most recent ones have run about 10¼ percent interest rates. Under this financing, the monthly debt service per unit is going to be $272 versus $375. Again, we add the operating costs—taxes, insurance, and so forth—and we've now brought the minimum rent he can charge to $372 a month. That's still not enough. That still doesn't make our target of $250 to $275 per month.

The element that will trigger it all is the use of surplus public sites. As we can see when we can write down the land costs, in conjunction with the tax exempt financing, the debt service is $164, add operating costs of $100, and we're now down to $264 a month that the landlord can charge for that unit. It becomes financially feasible for him to do so.

That's how surplus sites can be used to achieve rents that are affordable for the elderly.

That example was just one model. There are dozens and dozens of alternatives that can be used with that model. For instance, you don't need to write all of the units down to the affordable rate of $264. You could write down 50 percent of them and than have market rate rents on the balance that means you could have a source of revenue because the cash flow would be positive on those market rate units and a partial land payment could be made.

In the city of San Diego, when we have had large sites that could accommodate up to 500 units, we have in fact split the project because we didn't want to impact it with 500 all low income. So we may have had up to 30 percent low income and then some moderate and some market rate. In those projects, the city realizing a cash payment. In one case it's $168,000 a year, which can be reinvested in other projects to provide affordable housing for the elderly.

In some cases, a site that is large can be split—subdivided—so that a portion of it is low-income affordable housing for the elderly and the balance becomes, let's say, for sale condominiums at market rate, and those are sold. In one case, we have a project of 432 units, and 312 are for sale market rate condos and the balance of 120 homes are affordable housing units. The city is getting for that surplus site—that was just sitting there not earning anything—a profit of between $5 and $6 million on the for-sale portion of it. The land itself was worth about $1.7 million and has recovered itself several times over and provided affordable housing at the same time.

There are a variety of things that can be done with surplus public sites that both generate affordable housing and generate a revenue for the public.

The next question is: If Government is giving this land to housing, aren't they simply making a huge subsidy—and people in San Diego originally thought so. Isn't this an expensive way of providing affordable housing? It need not and should not be a subsidy in the same way that a housing assistance payment Voucher Program is. It can and should be an investment; an investment that can have a return, an investment that can be recaptured, and investment that can reinvested over and over again.

We understood housing economics, which is focused on the cash flow of a project. It takes *x* number of dollars to build and maintain it, and therefore you have to have *x* number of dollars as income to pay for it.

But there is some additional housing economics that we also know about. We know that there are tax benefits that accrue to the owner, primarily in the form of depreciating the improvements,

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which is as good as cash. The tax bracket determines how much cash it means to that owner. We all know that rental rates are increasing—they always have and they always will—and therefore positive cash flow will result, in future years. We all know about the appreciating value of property. We all know that rental housing sometimes even starts out with a negative cash flow because developers know that they have the tax benefits, because they know that rents are going to increase, because they know that the value of that property is going to appreciate.

Knowing those things, we can take advantage of them and structure the system so that these surplus sites are used in a way which is, as in the private sector is referred to as a "joint venture partnership," where we participate in the future cash flow and appreciation of those properties.

We can keep ownership of the land with defined land lease payments, but sometime in the future when that owner has used up his tax benefits, when he wants to refinance, when the property has appreciated in value, when income—from rents—is greater, at that point we can call our deferred lease rate with interest on that particular project.

This can work. In 1978 or a little earlier, the city of San Diego, under the leadership of then-mayor Wilson, made a decision to commit 91 surplus sites worth approximately $26 million, to the development of affordable housing. Since that time, the San Diego Housing Commission, has constructed over 1,500 units that people are living in and that are affordable to low income. Another 1,500 are in development. In conjunction, we have had about another 3,000 units planned.

But of that initial $26 million investment, the city already to this date has generated $7.7 million cash return on its investment. Our projections—and they are conservative—is that by 1988, in addition to many more units being built and available at affordable rents, over $24 million of revenues will have been generated on this initial investment of $26 million worth of surplus sites.

In addition to providing affordable housing and gaining an economic return on its investment, there are many other benefits that accrue to the community, to the public. In San Diego, for instance, just in the year 1984, because of surplus sites being used to trigger, over 3,000 jobs have been created for our community, almost $10 million in tax dollars will have been generated—property tax, sales tax, income tax, and other taxes. There will be a total economic impact of $269 million that will be realized from the development of affordable housing, made possible only due to the availability of surplus sites.

This cost effective use of surplus sites for developing affordable elderly housing with a public-private partnership, with substantial economic return and economic impact, can only be realized through the use of surplus sites. Surplus public lands are the trigger mechanism which makes it all possible.

I would like to conclude with the comment that several years ago Mayor Pete Wilson visualized something that very few people could see. It may have even exceeded his expectations. Mayor Wilson supported it through its time of greatest controversy. I can remember times when the votes were 8 to 1, and they were not with him to make surplus sites available for housing.

It has worked out very well. Senator, we are very pleased with the pioneering effort you undertook, with your diligence and your leadership, in establishing a surplus sites program for developing affordable housing for the elderly in the city of San Diego.

Senator WILSON. Thank you very much, Ben. This has been music to my ears.

I do want to ask some questions of both Mr. Grissom and Mr. Montijo, but first we would like to hear from Mr. Williams, who, as you have heard, is not only a resident in some of the housing Mr. Montijo has been describing, but also has been very much an activist. His successes on behalf of the elderly have been celebrated recently by President Reagan. Mr. Williams.

STATEMENT OF IVARY WILLIAMS, VOLUNTEER, SENIOR SERVICES NEIGHBORHOOD HOUSE OF SAN DIEGO, CA

Mr. WILLIAMS. Yes. Senator Wilson, distinguished guests, my name is Ivary Williams. I reside in San Diego. Thank you very much for this opportunity to address you on such an important issue. And you will have to bear with me because public speaking is new to me. But I feel like I am able to speak for a lot of the seniors there in San Diego and all over the United States.

In essence, my interest in housing for the elderly, to me, is very important. The importance of affordable housing for all Americans is a concern of most. The impact on seniors is one of the most critical issues that we face. With the improved health care, the number of seniors is increasing dramatically. This growth in number requires more social service, the major need being affordable housing. The majority of seniors exists on a minimum income. Spiraling costs of construction and financing and other related increases are being passed on to the renters and buyers, excluding the seniors on low fixed income and living in senior affordable housing.

Please keep in mind that the elderly citizens of our society are not asking for a free lunch. The majority of the Nation's seniors have led productive lives. We have contributed to the development of our society through our labor and our taxes, supported our country and its principles. We now exist on limited income for a variety of reasons ranging from disability, death of our spouse, or in some cases, forced retirement. We have helped to make this country and our respective communities the success that they are. The elderly deserve some recognition and your support.

We have firsthand knowledge of the positive aspect that housing can mean to a person's well-being. In addition to volunteering, along with my wife, Roberta, in senior-related activities, we are also being assisted in section 23 housing assistance programs as administered by San Diego Housing Commission. I have come to appreciate the benefits which affordable housing brings to seniors. It is my strong opinion that the public housing projects like those that exist in San Diego are very much needed and will be sound investments in a large population.

Use of surplus Government lands for public housing programs will greatly reduce the relationship—related construction costs to developers, who must pass this cost on to the consumer. Utilizing housing agencies such as San Diego Housing Commission, which are active in the development of public housing, in cooperation with private business, you have the opportunity to divert some of those public investments toward the senior population. You have the influence to direct how surplus Government land can be used. Public housing for the elderly is not to be viewed as a cost to the taxpayer, not even as a welfare program, but as a reinvestment.

I hope you sincerely consider the evaluation today through today's testimony and come to a sound, logical conclusion. Your opinion will affect millions of Americans who need your help and support. Thank you.

Senator WILSON. Thank you very much, Mr. Williams. We appreciate your being here and expressing your keen interest in the subject of housing, in which you have a personel stake. And I know you are speaking for a great many others as a representative.

While we have this panel at the table, I will pose some questions, while having in mind the next panel who will follow them, who are representatives of the Federal and State agencies concerned with the disposition of real estate for the agencies that they serve.

The San Diego Housing Commission, as Mr. Montijo has told the audience, has made use of city-owned sites which the city declared surplus because we had made the policy decision that in order to try to achieve the cost differential which Mr. Montijo described in his table, it was a worthy public investment of public assets to put them into inventory of the housing commission.

He has pointed out a couple of different ways in which this can be useful. And I would like to explore still others. First, let me ask you this question, though. What has been your experience—and I have been gone now for 2 years and most of the time Mr. Grissom has served as the chairman—what has been your experience if a site that was designated for elderly housing has been found not to be suitable or cost effective? What alternatives are available to you then?

Mr. MONTIJO. I am pleased that you asked that question. What I think would be in the best interest of making surplus sites available is for the governmental agency not to worry about whether it is suitable because what can happen is this: A piece of land is a resource, and it can be converted to cash or traded for other property. For example, a city-owned site that we had—which we refer to as site 18; they are numbered in the city—we did exactly that. In that case, we swapped the surplus city site for a site that was owned by the University of San Diego to be able to put together a project that we would otherwise not have been able to do.

So, what we would fear and be concerned about is that public agencies at whatever level—Federal, State, or local—would evaluate their sites and say, "Well, it is not suitable for housing because, in the case of the elderly, it is not accessible to the transportation or shopping or services." We need the resource. Give it to us, and we will fully involve the private sector. They are very creative. They will figure out ways to land swap or sell or whatever, to make use of that resource.

Senator WILSON. Then, you have found that there is no shortage of interest or eagerness on the part of the private sector to engage in this kind of thing?

Mr. MONTIJO. It has a momentum that develops.

Senator WILSON. First you've got to generate the momentum.

Mr. MONTIJO. Right. That first developer is kind of reluctant. They are not sure about working with government. Once it gets going, you have more interest than you can handle.

As a matter of fact, an individual that you are familiar with—Tawfig Khoury—who received the National Association of Home Builders Developer of the Year Award, one day was driving to work and drove past a developed city surplus site. He was impressed that it was a really nice project and wondered about it. He asked his staff to investigate. They found out it was a site developed in conjunction with the city on a surplus site. He has become enthusiastic and has developed a whole division in this company to work in partnership with government. He reorganized and set up a division to do this. He even hired one of our employees away, and is working diligently to work in partnership with government to develop affordable housing. Many developers are just as interested.

Mr. GRISSOM. We have found, Senator, that because of the private-sector orientation on the part of our staff, that we have almost become a training ground. As our employees become more attuned with the private-sector approach, we are finding that developers are often luring them away from our staff.

We have also found, in that particular project, that there was such a positive cash flow generated that we were able to create a park right next to it, which was, as you may remember, a part of the original agreement with the city of San Diego. And because of that, we were able to overcome some of the protest or the concerns from the surrounding neighbors.

Senator WILSON. Of the two methods that you described—one being the deferral of the lease payment and the other, the joint venture agreement—in which the public agency, in this case, the commission, and the private developer actually collaborate, with the public partner share or contribution to this partnership being the land, and looking to recapture a value upon resale—which has been the more attractive as an inducement to private sector developers?

Mr. MONTIJO. Fortunately, developers are like business people. There are all types, and some are attracted to one method and some are attracted to others.

The larger developers are probably attracted to the joint-venture concept. It is something that they understand and do well. A smaller developer, who needs some capital investment, is probably more interested in the deferral. It ranges, and fortunately there is a market there for all types of combinations. And each combination of what is done is based on the uniqueness of that particular developer, of that particular site, and the project you are going to build on that site.

So there is a market for the whole range of alternatives.

Senator WILSON. To what extent do you find that the commission, while it can't itself be a direct recipient of certain HUD funds, can be involved with nonprofit sponsors?

Mr. MONTIJO. We work closely with non-profit sponsors. And you may recall some of the ones that we worked with when you were mayor. We provided technical assistance, and in some cases we provide the surplus site with a write down for them.

A partnership between the public and the nonprofit or the for profit can be achieved. We are giving more and more attention to recently—and Mr. Grissom has been very helpful in this—is including the community into that partnership, in participation in discussion and evaluation of what is done in their community.

Senator WILSON. How much can be expected as an economic return on surplus land, say?

Mr. MONTIJO. That will range. On a smaller project, with a smaller developer, it is not likely that you are going to recover the full value of the land. But on larger sites and with joint venture projects, you can get a return of several times the value of the land. So, that will range based on the particular project.

Mr. GRISSOM. We have found in San Diego that the new construction is basically—has the largest multiplier effect on the economy. So, basically taking an unutilized asset, we are creating jobs in the construction industry, creating new taxes. We are creating a positive cash flow for the city of San Diego, which takes a percentage of the net revenue from the project. And, simultaneously, we end up creating new housing for a very special sector of our population that is truly in a situation where they are desperately in need of housing.

So we just say that it is truly—it is a win, win situation for everybody involved.

Senator WILSON. As you analyzed the San Diego market for elderly housing, you may have a situation which may be peculiar to a growing Sun Belt city. Maybe it is applicable, though, to most of California for reasons that relate to the growth of the State's population overall.

Earlier we heard Reverend Harshfield indicate the support for the experiment that is going to be conducted with housing vouchers. And, if I remember correctly, San Diego is 1 of the 20 sites selected. That really is aimed at making use of the existing inventory of housing, and the hope is that we will be able to stretch the available dollars further than we can with new construction, which is admittedly more expensive.

This whole approach that we have been discussing, though, is a way to add new units, to actually construct new units and to make those affordable by, in effect, using one method or another to write down land costs.

I am interested in how you see the introduction of this experiment working in conjunction with what you are doing and what you described.

Mr. MONTIJO. The need, as we indicated in our written statement, in the community of San Diego is that about 21,000 elderly persons, by the mathematics of their income, need some housing assistance. The assistance available right now through the section 8 and the housing voucher and the section 202 program probably is assisting about 2,500 of those 21,000. So the gap is great.

The voucher program depends on an existing supply of housing. So there is a limit of how many vouchers can be used. I prefer a surplus sites program and adding new units at affordable prices because, as Mr. Grissom indicated, it is a win-win for everybody. The housing voucher program helps meet the need and is needed. I prefer a surplus sites program because it provides housing and recovers the costs of providing housing. The problem with a voucher program is that it is like a lost subsidy. It is spent; it is not an investment. It doesn't generate the economic return.

Mr. GRISSOM. We have found that we have been very successful with our section 8 housing. There is something slightly in excess of 4,500 units that we manage per year. The voucher program will be supplement to that and will be, I think, of help in meeting the needs of this population.

But we find that the activist groups in San Diego, the San Diego Housing Coalition, for example—when they really get after us and stay after us, it is primarily to construct more units. They want to see an increase in the housing stock in San Diego. The surplus land program fits that concern on their part and they are very supportive of it.

Senator WILSON. Gentlemen, I have just one final question, because I think what you have told us has been very useful. It really sets the stage for the discussion with the next panel.

What success or what difficulty have you encountered in working with other public agencies with finding surplus Government sites?

Mr. MONTIJO. We met with resistance at the State level and at the Federal level. We certainly tried. We made inquiries and made requests. And I'm not sure that the resistance is based on the motivation not to assist. It is just that it is such a new thing. They are not used to it; they don't understand it. They've got their own regulations and rules. It hasn't been forthcoming, despite a number of efforts. And yet, there is a lot of land there that isn't used and can't be used. For instance, in the case of CalTrans, there are just some vacated sites that just have no plans at all, and the land sits there.

Mr. GRISSOM. Senator, I've had the opportunity, as you know, to serve as the president of the San Diego Chamber of Commerce for over 10 years. One of the best friends that San Diego has in economic terms—virtually any terms at all—is the Navy. We have 116,000 uniformed military personnel in San Diego at this moment, adding about $4.5 billion a year to our economy. There is a desperate, desperate housing shortage for naval personnel. The list, I think—the waiting list is something in excess of 10,000 right now. I have many, many times gone back to the Pentagon and have talked with the Department of Defense officials in virtually every administration in the last 10 years. Even there, we have had a very serious reluctance on the part of military to release their lands for new housing construction. We have had some notable successes in the last 2 years, and we appreciate your support in that effort. One which is about to open is called Carol Canyon, and that is virtually surplus Navy land on which 140 units have now been constructed. But this is just the beginning, absolutely just the beginning.

San Diego County is larger in size than seven States in this Union. Well over 50 percent of all the land is owned by the Federal Government, either Department of Defense, Department of Interior, or other Federal Government agencies. Now, obviously a lot of that property cannot be used. But we think that with a spirit of cooperation, that we could identify parcels that could be of utility and therefore help both the Federal Government, local government, and our private sector to meet a critical situation in our community.

Senator WILSON. One final question: Have you noticed the change with respect to participation specifically by the Department of Defense since the legislative change that allowed the Department of Defense to escape from simply losing the proceeds of the sale of "their land" and seeing the proceeds go into the Treasury through the usual GSA disposition process? Has that provided any incentive for the Department to be a little bit more aggressive in inventorying their own holdings with an eye to achieving the all to scarce military construction that would allow them to build other needed facilities on other property?

Mr. GRISSOM. Senator, I am delighted to say that we have been delighted to see the change in attitudes, change in perspective, not only at the housing commission level, but indeed the San Diego Council of Governments is also—it's a whole new spirit of cooperation. And we are very delighted. It's been a long time coming, but we are very pleased that it has finally arrived.

Senator WILSON. For the benefit of the audience, the question and the reason for the emphasis on this particular line of questioning had to do with the fact that, not only in San Diego, which perhaps is more than—certainly more than most communities, is blessed with a significant military presence and a kind of good corporate citizenship that Mr. Grissom has described, but the land holdings, as well, that he has also described. But if the difference exists in degree, it is also true that in San Francisco and Sacramento and a number of the major communities in California, there is a similar military presence and hopefully the opportunity for the Department of Defense to examine its holdings and find a way in which it can benefit and now have the incentive to do so under this change in the law, and again, in so doing, contribute markedly to the success of local housing agencies working for both profit developers and nonprofit sponsors.

Gentlemen, thank you. That has been very helpful. And if you have the time, perhaps you can listen to our next panel.

We invite to the witness table now, panel 3; Gerry Kauvar, Director of Installation Planning for the U.S. Department of Defense; Earl Jones, Acting Commissioner of Federal Properties Research and Service, U.S. General Services Administration; Edward R. Miller, land agent for the California Department of General Services.

First, Dr. Gerald Kauvar currently serves as Director of Installation Planning, Office of the Secretary of Defense. Installation Planning is responsible for real estate policy for the Department. Dr. Kauvar has served as a candidate for the Department's Senior Executive Service, Special Assistant for Education at the Department of Defense, as a professor at both the City College of New York and the University of Illinois.

Doctor, welcome.

STATEMENT OF DR. GERALD B. KAUVAR, WASHINGTON, DC, DIRECTOR, INSTALLATION PLANNING, OFFICE OF THE ASSISTANT SECRETARY, U.S. DEPARTMENT OF DEFENSE

Dr. KAUVAR. Thank you very much, Senator. It is a pleasure to be here today. On behalf of Secretary Weinberger, I thank you for your invitation to discuss the way the Department of Defense manages its real property assets, and in particular, how we go about declaring property surplus or excess to our needs.

The Department of Defense is the third largest landholder among the Government agencies. We have about 5,600 installations; 911 of these we consider major and are located within the 48 contiguous States. On these installations, we have constructed about 450,000 buildings. We have about 25 million acres of property altogether. That is about the size of the State of Tennessee. Most of this is not fee owned land; it is public domain land which is used by the Department of Defense.

Senator WILSON. Why don't you explain to the audience the difference.

Dr. KAUVAR. Public domain land is not ours. We go to Congress and we ask permission to use the land for certain activities, primarily training. A hearing was held last week where we asked for a 5-year permit on about 50,000 additional acres that we need to have for training. We have here in California the China Lake Naval Weapons Station—it is a good example of property that we use, but it is public property and not ours.

The Department of Defense used to have a lot more property, but as the size of the force, the number of people, the number of units of equipment decreased during the 1970's, we closed about 600 installations that we no longer needed. Now that we are repairing a decade of neglect and rebuilding America's defenses, we have had to reopen some of those installations. Two of them, for example, are right here in California: Fort Irwin, the national training center, and Long Beach.

Our real estate policy is really simple. Our installation commanders have to make sure that they have all the land they need to perform their missions, and they are to get rid of any land they hold which they don't need to perform their missions.

How do we go about making sure they are doing this? Well, we've got a couple of ways. First, in accordance with the law, we ask them to survey their property once a year. In addition, to comply with Executive Order 12348, the Department of Defense has completed about 125 surveys. We conducted these surveys in areas where, if there were any excess lands at all, sale would bring the most money to the Government. We found about 2,200 acres of fee-owned land and about 25,000 acres of public domain land that Congress is willing to declare excess so that we can turn it over to GSA. At the same time, though, we have had to ask Congress to withdraw from the public domain another 50,000 acres that we need for training purposes, and we have sought authority to purchase other land for family housing and to be sure that no incompantible activities are located in the clear zones around our airfields.

I am very pleased that you mentioned the change in the legislation that occurred last year. The Department has been trying to get what we call sale and replace legislation for over 20 years. What the program lets us do is to sell land that is not excess because we are using it and we have got a purpose for it. But if we can perform that same mission someplace else on our land by relocating the facilities, we are permitted to sell that land, use the proceeds to rebuild the facilities elsewhere on the installation, and turn any profit from the transaction over to the Department of the Treasury. The profit is the difference between what the land is worth and what it costs us to relocate our facilities.

We will have four projects up for authorization this year before Congress. The total land value will be about $90 million. And the cost to replace our facilities will be about $70 million. One of the largest projects will be here in California.

It is a good deal for everybody. We get more modern, better located facilities. The Federal Treasury benefits from getting the deficit reduced, and local tax revenues are increased because land which we are using is turned back to the tax rolls.

Congress also approved two test programs that may be of interest to the committee and the people in attendance here as you seek ways to find additional housing for the elderly. In order to create more family housing for our people, we asked Congress to give us the right to test two new programs. Essentially, we can either guarantee the occupancy of family housing built for us by private developers or we can lease it directly. In either case, Defense gets housing built to our standards at a fair market price and the local developer is assured an income which he can take to the bank to get financial backing. The local economy is stimulated, and the relationship between the military and civilian community is enhanced.

The Federal Government is taking another look at the way it manages property. Right now, if we have got some property that we know don't need, we report it to Congress, and if Congress agrees, we turn it over to the General Services Administration which has the responsibility for property disposal. That is the gentleman on the right. Early Jones is my broker. And when Earl Jones talks, everybody listens.

But when GSA sells the property, the money goes to the land and water conservation fund. It is not used to reduce the deficit and it is not used to buy new facilities.

The Cabinet Council on Management and Administration has agreed to rethink the way the Federal Government manages its property. They provide policy oversight to assure that sound management policies are developed, implemented, and monitored. The Department of Defense, with Secretary Weinberger as a Council member, will present a property management improvement initiative. We are going to ask that property management be decentralized. We believe that providing our installation commanders with greater freedom and management incentives will enable us to manage our property better, and that will benefit all of the taxpayers. Our proposed policy will link responsibility and authority, provide real world incentives, and make human nature work for us. It will help cut the deficit by reducing appropriations, and it will reveal the true cost of doing business.

I hope this brief discussion of our policies, practices, and intentions has been helpful to you. I will be glad to try to answer questions that you may have. Thank you.

Senator WILSON. Thank you, Dr. Kauvar. You anticipated one of my questions. I was going to ask you what role the local military commander plays in identifying the possible surplus sites. And I think you indicated by your testimony that the Secretary and you and others think that he ought to play a much larger role.

Dr. KAUVAR. That is exactly right.

Senator WILSON. I could not agree and be more emphatically in favor of that initiative.

Dr. KAUVAR. I appreciate that very much.

Senator WILSON. In fact, I would like to follow up on that and give as much legislative support as possible to it. If you will afterward tell Ms. Schutz how we can be helpful to you, it would be our privilege to do that.

Dr. KAUVAR. I will be pleased to do that, Senator. Thank you.

Senator WILSON. Thank you. Apart from increasing the discretion of the local military commander and initiating sales or exchanges of this kind, can you think of any other procedural steps that can be taken to expedite the process of identification and actually movement on up?

Dr. KAUVAR. I can. I would like to pick up on what you said in your introductory statement. The installation commander's main job is not property management. In fact, the way we have structured the system right now, even if he is a terrific property manager, it doesn't help him perform his mission. What I want to do is try to bring these two things together. But the people who can help are the people who are sitting right here because with the legislative incentives that the Congress has given us over the last 2 years, people here should be looking for property that we hold that you may be able better to use than we can. And when you find that, when a developer finds it, when a member of the local government finds it, or a member of the chamber of commerce finds it, talk to the real estate people at that installation and tell them that you have got a deal that is too good for them to turn down. They will appreciate it because they are going to get something out of it.

So it's got to be the kind of partnerships that you talked about originally. It's got to be the local people, developers, the local elected officials working with the people at the installation to identify these opportunities. I don't think the installation people are going to be sophisticated enough about your needs and the places where you need property to come up with these ideas themselves. But I think they will work with you because there is something in it for everybody.

Senator WILSON. I could not agree more. I will just say that, even before the changes in the law came through special legislation, we were able to achieve that kind of mutual benefit. Some years ago, the city played broker between the San Diego Unified Port District and the Navy. The Navy held a leasehold on some port district land that they are using for a recreational field. But it really harkened back to an earlier simpler time when sailors came ashore and played softball and did not have families, and it had become something of an anachronism really. And what was arranged was the abandonment by the Navy of their leasehold so that the underlying land was free for te port district to use in other ways. It has turned out to be a very valuable commercial property. The consideration of the Navy in abandoning their leasehold was compensation which they were then able to use not just to replace the facilities that had been in that Navy field, but really to build some brand new ones of a different kind that responded more to the needs of today's sailor. Instead of baseball diamonds and bowling alleys, they were able to build some tot lots and child care facilities on land that they owned at the 32d Street Naval Station.

Thank you very much, Dr. Kauvar. And I repeat the invitation that we would like to know in what way you think the existing law can be amended to assist you in achieving your initiative.

Dr. KAUVAR. Thank you. I will look forward to working with you.

Senator WILSON. I now introduce Earl Jones, previously the Assistant Commissioner of the Office of Real Property for the U.S. General Services Administration, and was named Acting Commissioner of GSA's Federal Property Research Services in April 1984. Mr. Jones is administering programs involving the management of the Nation's stockpile of strategic and critical materials and the disposal of surplus Federal real estate. He has been involved in the management and disposition of real estate for the General Services Administration since 1962 so he brings a wealth of experience to us this morning. Welcome, Mr. Jones.

STATEMENT OF EARL E. JONES, WASHINGTON, DC, ACTING COMMISSIONER, FEDERAL PROPERTY SERVICES ADMINISTRATION, U.S. GENERAL SERVICES ADMINISTRATION

Mr. JONES. Mr. Chairman, I am pleased to have the opportunity to appear before you today to discuss the Federal Real Property Utilization and Disposal Program administred by the General Services Administration.

Before addressing issues of particular interest to the committee, I will briefly discuss the overall objectives of the Real Property Program and the processes which govern disposal operations.

Pursuant to the Federal Property and Administrative Services Act of 1949, GSA is vested with the responsibility for administering an economical and efficient system for the Federal Government to promote the most effective use of real property it no longer requires.

To aid in carrying out this responsibility, GSA, in accordance with Executive Order 12348, "Federal Real Property," issued by the President on February 25, 1982, conducts surveys of Federal landholdings on a regular basis to ensure that they are being fully utilized, and, if not, generally recommends that the property be reported for disposal. The basic objective of the Executive order is to encourage better management of property and to ensure the prompt identification and release by executive agencies of real property no longer essential to the Federal Government.

Under normal procedures, real property which is no longer needed by a Federal agency is reported to GSA as excess real property. GSA first notifies other landholding Federal agencies that such property is available for further Federal utilization. If we receive a properly justified request for further use of the property for Federal purposes, it is transferred to the requesting agency. Such transfers among Federal agencies fulfill the congressional objective stated in the Property Act that GSA minimize executive agency expenditures for property through efficient and effective utilization of excess property.

If there is no further Federal requirement for a property, it becomes available for disposal as surplus real property. Under existing provisions of law, eligible State and local governmental units and certain nonprofit institutions may acquire surplus real property for restricted local public purposes at monetary discounts of up to 100 percent where such purposes reflect the highest and best use of the property. Eligible public uses include public park and recreation, historic monument, public airport, health, education, highway, and wildlife conservation. In addition, State and local public bodies may purchase real property by preferential negotiation at its estimated fair market value for unrestricted use.

Property which is not needed for further Federal purposes and which is not transferred for non-Federal public purposes is generally offered for sale to the public by GSA through competitive sealed bid offerings and public auctions. Such sales benefit the locality by placing the property in productive use, returning it to the tax rolls, and providing the taxpayers on a nationwide basis a monetary return which is applied to their benefit. Proceeds from the sale of surplus real properties are generally placed in a land and water conservation fund which is available for grants to the States by the Department of the Interior to provide park and recreational lands and facilities.

Part of the hearings today concern the possibility of using Federal surplus land for the private sector development of low- and moderate-income housing for the elderly. There is presently no authority under which GSA can transfer surplus real property for private sector development of low cost elderly housing. However, as I have indicated, State and local bodies may acquire surplus real property by preferential negotiation to be used for such purposes. For example, not too long ago we sold to the town of Cambria, NY, an airport station for approximately $500,000, and it is not being developed for housing for the elderly.

We can do a number of things when we are negotiating the sale of property for such purposes. We can provide liberal terms. We can structure the mortgage a certain way to assist. We try our best to work as closely as possible with local communities within the framework of the law.

We also have another excellent example of where we have disposed of property for the elderly through local government. It has to do with the sale of housing at the former Ramey Air Force Base to the Commonwealth of Puerto Rico. The commonwealth proposed to use the property strictly for low-income housing and housing for the elderly. We sold the property to the commonwealth for $12 million. We gave them special terms and conditions.

Now, as a result of congressional and administration concerns about the management of Federal real property, we have been conducting a program to substantially increase the release by Federal agencies of unneeded real property. This program was formalized by the issuance of Executive Order 12348 and is commonly referred to as the Presidential real property asset management initiative.

We are striving to improve this program and to expand its effectiveness, especially by more directly involving the landholding Federal agencies. Since the inception of the program, GSA has set targets and goals, conducted land utilization surveys, and measured performance by the number of survey reports prepared. Under our expanded program effort, Federal landholding agencies, rather than GSA, will develop their own plans for the release of unneeded property and will be held accountable for results. GSA will measure their performance and report the progress of the program to the Presidential Cabinet Council on Management and Administration.

Mr. Chairman, this concludes my statement. I will be pleased to answer any questions you may have.

Senator WILSON. Thank you, Mr. Jones. You have made the comment here that there is no present authority in existing law for you to consider the disposition of any excess or surplus real property for the purpose of providing site construction for low-income housing by a for-profit developer. It is not—that use is not included as one of the eligible public uses for which that monetary discount up to 100 percent may be offered. What if we are talking about not the site being used for housing by a for-profit but a nonprofit developer? You don't have authority to do that, either, do you?

Mr. JONES. No, sir; we don't. Under existing law, we are authorized to sell surplus real property to State and local government units at the fair market value, sort of a preferential type of treatment in terms that we can deal with State and local governments first. We are not authorized under the law to negotiate with private firms or individuals unless there are extenuating circumstances, such as property that is landlocked or there is military requirement, something of that nature.

Senator WILSON. What has been the impact on the operation of your office as a result of the change in the law that relates to the Department of Defense, the so-called sell and replace provision that has allowed them to keep a portion of the proceeds for replacement of lost facilities, providing to you what they term the "profit," the difference between the replacement cost and the actual proceeds?

Mr. JONES. That law applies to the disposition of nonexcess property. In other words, the Department of Defense is not saying that they do not have a requirement for this property. But, as I understand that law, it is more—it focuses more so on the Department of Defense moving, you might say, from the high-rent district to the low-rent district. And the proceeds from sale are used for a relocation and various other purposes, anything left over going into the Treasury.

We are concerned strictly with the disposition of excess Federal property. This does not deal with excess property.

Dr. KAUVAR. If I can add one thing, to sell one of the projects—for example, March Air Force Base, where we would release about 2,200 acres if we could get three buildings rebuilt—the General Services Administration will act for us, as they do now. That is, we will not make our own deal with whomever it is that wishes to buy that property because GSA, according to the law that was passed last year, will be our broker. So they will get involved. The reason they haven't been yet is that we did not have the right to do this until this fiscal year, and we've been very busy getting these first four projects ready for the 1986 military construction program.

Senator WILSON. In the interest of time, I won't ask you to spell it out now, but I would be grateful if you could provide for the record the differences in the procedures prescribed by law for the determination of excess as opposed to nonexcess property since the treatment afforded them is so different. I can't help but be curious as to precisely what factors motivate the decision to declare something excess. I would think the change in the law would reduce the probability of that from the standpoint of the local military commander.

Now, that frankly was—one of the purposes was to provide an incentive for them to really examine what they have and find out whether it was essential to their present mission in at least that exact place, as you described them.

Dr. KAUVAR. There are no differences in law. Excess property is not used now and is not programmed for use in the forseeable future. Nonexcess property is property we are using or have a clear future need for.

[Subsequent to the hearing, Mr. Jones submitted the following for the record:]

General Services Administration   Federal Property Resources Service   Washington, DC 20406

Honorable Pete Wilson
Special Committee on Aging
United States Senate
Washington, DC 20510

Dear Senator Wilson:

I was very pleased to participate, on behalf of the General Services Administration, in your recent Hearing on Low-Cost Housing for the Elderly: Surplus Lands and Private-Sector Initiatives, in Sacramento, California.

Enclosed is my edited testimony. Also, with regard to your query on the difference in the procedures prescribed by law for the determination of excess as opposed to non-excess property as it involves the new Department of Defense (DOD) "sell and replace legislation", I have enclosed a copy of the statutory provision and our current Federal Property Management Regulations which define excess Federal real property. The DOD should provide you with their criteria and procedures for defining non-excess property.

I trust this information is helpful.

Sincerely,

Earl E. Jones

EARL E. JONES
Acting Commissioner

Enclosures

PART 101-47 UTILIZATION AND DISPOSAL OF REAL PROPERTY

§ 101–47.202–3 Submission of reports.

Reports of excess shall be filed with the regional office of GSA for the region in which the excess property is located, as follows:

(a) Government-owned real property and related personal property shall be reported by the holding agencies 90-calendar days in advance of the date such excess property shall become available for transfer to another Federal agency or for disposal. Where the circumstances will not permit excess real property and related personal property to be reported a full 90-calendar days in advance of the date it will be available, the report shall be made as far in advance of such date as possible.

(b) Leasehold interests in real property determined to be excess shall be reported at least 60-calendar days prior to the date on which notice of termination or cancellation is required by the terms of the instrument under which the property is occupied.

(c) All reports submitted by the Department of Defense shall bear the certification "This property has been screened against the known needs of the Department of Defense." All reports submitted by civilian agencies shall bear the certification "This property has been screened against the known needs of the holding agency."

§ 101–47.202–4 Exceptions to reporting.

(a) A holding agency shall not report to GSA leased space assigned to the agency by GSA and determined by the agency to be excess.

(b) Also, except for those instances set forth in § 101–47.202–4(c) a holding agency shall not report to GSA property used, occupied, or controlled by the Government under a lease, permit, license, easement, or similar instrument when:

(1) The lease or other instrument is subject to termination by the grantor or owner of the premises within nine months;

(2) The remaining term of the lease or other instrument, including renewal rights, will provide for less than nine months of use and occupancy;

(3) The term of the lease or other instrument would preclude transfer to, or use by, another Federal agency or disposal to a third party; or

(4) The lease or other instrument provides for use and occupancy of space for office, storage, and related facilities, which does not exceed a total of 2,500 sq. feet.

(c) Property, which otherwise would not be reported because it falls within the exceptions set forth in § 101–47.202–4 (b) shall be reported:

(1) If there are Government-owned improvements located on the premises; or

(2) If the continued use, occupancy, or control of the property by the Government is needful for the operation, production, or maintenance of other property owned or controlled by the Government that has been reported excess or is required to be reported to GSA under the provisions of this section.

§ 101–47.202–5 Reporting after submissions to the Congress.

Reports of excess covering property of the military departments and of the Office of Emergency Planning prepared after the expiration of 30 days from the date upon which a report of the facts concerning the reporting of such property was submitted to the Committees on Armed Services of the Senate and House of Representatives, 10 U.S.C. 2662 and the Act of August 10, 1956, 70A Stat. 636, as amended (50 U.S.C. App. 2285), shall contain a statement that the requirements of the statute have been met.

§ 101–47.202–6 Reports involving the public domain.

(a) Agencies holding land withdrawn or reserved from the public domain which they no longer need, shall report on Standard Form 118, with appropriate Schedules A, B, and C, land or portions of land so withdrawn or reserved and the improvements thereon, if any, to the regional office of GSA for the region in which the lands are located when the agency has:

(1) Filed a notice of intention to relinquish with the Department of the Interior and sent a copy of the notice to the regional office of GSA (§ 101–47.201–3);

(NEXT PAGE IS 4706.1)

39-877 O—84——5

Subpart 101–47.8—Identification of Unneeded Federal Real Property

§ 101–47.800 Scope of subpart.

This subpart is designed to implement, in part, sections 4 and 5 of Executive Order 12348, which provide, in part, that the Administrator of General Services shall (a) issue standards, procedures, and guidelines for the conduct of surveys of real property holdings of Executive agencies on a continuing basis to identify properties which are not utilized, are underutilized, or are not being put to their optimum use; and (b) make reports to the Property Review Board describing any property or portion thereof which has not been reported excess to the requirements of the holding agency and which, in the judgment of the Administrator, is not utilized, is underutilized, or is not being put to optimum use, and which he recommends should be reported as excess property. The provisions of this subpart are presently limited to fee-owned properties and supporting leaseholds and lesser interests located within the States of the United States, the District of Columbia, the Commonwealth of Puerto Rico, American Samoa, Guam, the Trust Territory of the Pacific Islands, and the Virgin Islands. The scope of this subpart may be enlarged at a later date to include real property in additional geographical areas and other interests in real property.

§ 101–47.801 Standards.

Each executive agency shall use the following standards in identifying unneeded Federal property.

(a) *Definitions.*—(1) *Not utilized.* "Not utilized" means an entire property or portion thereof, with or without improvements, not occupied for current program purposes of the accountable executive agency, or occupied in caretaker status only.

(2) *Underutilized.* "Underutilized" means an entire property or portion thereof, with or without improvements:

(i) Which is used only at irregular periods or intermittently by the accountable executive agency for current program purposes of that agency; or

(ii) Which is used for current program purposes that can be satisfied with only a portion of the property.

(3) *Not being put to optimum use.* "Not being put to optimum use" means an entire property or portion thereof, with or without improvements, which:

(i) Even though utilized for current program purposes of the accountable executive agency is of such nature or value, or is in such a location that it could be utilized for a different significantly higher and better purpose; or

(ii) The costs of occupying are substantially higher than would be applicable for other suitable properties that could be made available to the accountable executive agency through transfer, purchase, or lease with total net savings to the Government after consideration of property values as well as costs of moving, occupancy, efficiency of operations, environmental effects, regional planning, and employee morale.

(b) *Guidelines.* The following general guidelines shall be considered by each executive agency in its annual review (see § 101–47.802):

(1) Is the property being put to its highest and best use?

(i) Consider such aspects as surrounding neighborhood, zoning, and other environmental factors;

(ii) Is present use compatible with State, regional, or local development plans and programs?

(iii) Consider whether Federal use of the property would be justified if rental charge equivalent to commercial rates were added to the program costs for the function it is serving.

(2) Are operating and maintenance costs excessive compared with those of other similar facilities?

(3) Will contemplated program changes alter property requirements?

(4) Is all of the property essential for program requirements?

(5) Will local zoning provide sufficient protection for necessary buffer zones if a portion of the property is released?

(6) Are buffer zones kept to a minimum?

(7) Is the present property inadequate for approved future programs?

(8) Can net savings to the Nation be realized through relocation considering property prices or rentals, costs of moving, occupancy, and increase in efficiency of operations?

(9) Have developments on adjoining nonfederally owned land or public access or road rights-of-way granted across

the Government-owned land rendered the property or any portion thereof unsuitable or unnecessary for program requirements?

(10) If Federal employees are housed in Government-owned residential property, is the local market willing to acquire Government-owned housing or can it provide the necessary housing and other related services that will permit the Government-owned housing area to be released? (Provide statistical data on cost and availability of housing on the local market.)

(11) Can the land be disposed of and program requirements satisfied through reserving rights and interests to the Government in the property if it is released?

(12) Is a portion of any property being retained primarily because the present boundaries are marked by the existence of fences, hedges, roads, and utility systems?

(13) Is any land being retained merely because it is considered undesirable property due to topographical features or to encumbrances for rights-of-way or because it is believed to be not disposable?

(14) Is land being retained merely because it is landlocked?

(15) Is there land or space in Government-owned buildings that can be made available for utilization by others within or outside Government on a temporary basis?

§ 101-47.802 Procedures.

(a) *Executive agency annual review.* Each executive agency shall make an annual review of its property holdings.

(1) In making such annual reviews, each executive agency shall use the standards set forth in § 101-47.801 in identifying property that is not utilized, is underutilized, or is not being put to its optimum use.

(2) A written record of the review of each individual facility shall be prepared. The written review record shall contain comments relative to each of the above guidelines and an overall map of the facility showing property boundaries, major land uses, improvements, safety zones, proposed uses, and regulations or other authorizations that sanction the requirement for and usage made of or proposed for individual parcels of the property. A copy of the review record shall be made available t, GSA upon request or to the GSA survey representative at the time of the survey of each individual facility.

(3) Each executive agency shall, as a result of its annual review, determine, in its opinion, whether any portion of its property is not utilized, is underutilized, or is not being put to optimum use. With regard to each property, the following actions shall be taken:

(i) When the property or a portion thereof is determined to be not utilized, the executive agency shall:

(A) Initiate action to release the property; or

(B) Hold for a foreseeable future program use upon determination by the head of the executive agency. Such determination shall be fully and completely documented and the determination and documentation kept available for GSA review (see § 101-47.802(b)(3)(ii)(B)). If property of this type which is being held for future use can be made available for temporary use by others, the executive agency shall notify the appropriate regional office of GSA before any permit or license for the use is issued to another Federal agency or before any out-lease is granted by the executive agency. GSA will advise the executive agency whether the property should be permitted to another Federal agency for temporary use and will advise the executive agency the name of the Federal agency to whom the permit shall be granted.

(ii) When the property is determined to be underutilized, the executive agency shall:

(A) Limit the existing program to a reduced area and initiate action to release the remainder; or

(B) Shift present use imposed on the property to another property so that release action may be initiated for the property under review.

(iii) When, based on an indepth study and evaluation, it is determined that the property is not being put to its optimum use, the executive agency shall relocate the current program whenever a suitable alternate site, necessary funding, and legislative authority are available to ac-

DECLARATION OF POLICY

SEC. 2. It is the intent of the Congress in enacting this legislation to provide for the Government an economical and efficient system for (a) the procurement and supply of personal property and nonpersonal services, including related functions such as contracting, inspection, storage, issue, specifications, property identification and classification, transportation and traffic management, establishment of pools or systems for transportation of Government personnel and property by motor vehicle within specific areas, management of public utility services, repairing and converting, establishment of inventory levels, establishment of forms and procedures, and representation before Federal and State regulatory bodies; (b) the utilization of available property; (c) the disposal of surplus property; and (d) records management. 40 U.S.C. 471

DEFINITIONS

SEC. 3. As used in titles I through VI of this Act— 40 U.S.C. 472

(a) The term "executive agency" means any executive department or independent establishment in the

the House of Representatives, and the Architect of the Capitol and any activities under his direction).

(c) The term "Administrator" means the Administrator of General Services provided for in title I hereof.

(d) The term "property" means any interest in property except (1) the public domain; lands reserved or dedicated for national forest or national park purposes; minerals in lands or portions of lands withdrawn or reserved from the public domain which the Secretary of the Interior determines are suitable for disposition under the public land mining and mineral leasing laws; and lands withdrawn or reserved from the public domain except lands or portions of lands so withdrawn or reserved which the Secretary of the Interior, with the concurrence of the Administrator, determines are not suitable for return to the public domain for disposition under the general public-land laws because such lands are substantially changed in character by improvements or otherwise; (2) naval vessels of the following categories: Battleships, cruisers, aircraft carriers, destroyers, and submarines; and (3) records of the Federal Government.

(e) The term "excess property" means any property under the control of any Federal agency which is not required for its needs and the discharge of its responsibilities, as determined by the head thereof.

(f) The term "foreign excess property" means any excess property located outside the States of the Union, the District of Columbia, Puerto Rico, American Samoa, Guam, the Trust Territory of the Pacific Islands, and the Virgin Islands.

(g) The term "surplus property" means any excess property not required for the needs and the discharge of the responsibilities of all Federal agencies, as determined by the Administrator.

(h) The term "care and handling" includes completing, repairing, converting, rehabilitating, operating, preserving, protecting, insuring, packing, storing, handling, conserving, and transporting excess and surplus property, and, in the case of property which is dangerous to public health or safety, destroying or rendering innocuous such property.

(i) The term "person" includes any corporation, partnership, firm, association, trust, estate, or other entity.

(j) The term "nonpersonal services" means such contractual services, other than personal and professional services, as the Administrator shall designate.

(k) The term "contractor inventory" means (1) any property acquired by and in the possession of a contractor or subcontractor under a contract pursuant to the terms of which title is vested in the Government, and in excess of the amounts needed to complete full performance under the entire contract;

Senator WILSON. Edward Miller is the chief land agent at the California Department of General Services. Mr. Miller has worked for the State of California for 27 years. He is the State counterpart of Mr. Jones and we are happy to welcome him and entertain his testimony. And I will note that he wants to talk primarily about the kinds of procedures that are involved at the State level in determining what is surplus property and administering its disposition.

STATEMENT OF EDWARD R. MILLER, SACRAMENTO, CA, CHIEF LAND AGENT, OFFICE OF REAL ESTATE SERVICES, DEPARTMENT OF GENERAL SERVICES, STATE OF CALIFORNIA

Mr. MILLER. Senator Wilson, thank you very much for the opportunity for the department of general services to explain its policy in surplus land determination and disposition.

With the exception of the department of transportation, the department of general services is reponsible for the administration of the surplus properties for most State agencies. This disposition process is carried out pursuant to the government code of the State of California, which provides on a yearly basis for all State agencies to report property which they deem no longer needed to the department of general services. The department, in kind, then reports to the legislature, who must first act to declare the property a surplus before it may be disposed of. Once the property has been identified and the appropriate legislation passed, we then also screen State agencies for need, much as the Federal GSA screens Federal agencies.

If no State agency has a program need for the property, it is then disposed of pursuant, again, to the government code. Under this code section, we may directly negotiate with local government entities with whom we are required by law to first offer the property before it can be offered on the open market. We may negotiate directly on the basis of fair market value if they desire to use it for their purposes. If they desire to use it for open space or park purposes, it may be sold at less than market value.

There was a recent code provision enacted in 1978 that also allowed the property to be disposed of for less than market value if the local government entity desired to utilize it for low-cost housing. Here, the local government applies to the department of general services and devises a program that is then reviewed by the State department of housing and community development for the provision of low-cost housing. And, based upon the recommendation of the Department of Housing and Community Development, the property is sold to a local government at less than market value, at a price that will enable the provision of low and moderate-income housing.

In some instances, this may amount simply to the administrative charges incurred by the department of general services in holding that piece of property. This program has been in effect since 1978, and three pieces of property have been disposed of pursuant to this particular code section. One of them has currently developed with the senior citizens low-income housing project in Santa Barbara, and the other two are not yet developed. The department is working with the local government entities to attempt to assist them in developing the two that have not yet started.

In December 1983, Governor Deukmejian issued executive order D-28-83, which further emphasized the need for California State departments to review their landholdings with an eye toward returning the property to the tax polls and declaring them surplus.

In accordance with the surplus property law, as codified, this increased emphasis would also provide opportunity for more property to be made available for low- and moderate-income housing. Our department is now, pursuant to that executive order maintaining a more aggressive posture towards questioning landholding agencies with regard to their needs and in an attempt to implement the surplus property program.

This concludes the explanation of our method of disposing of surplus property, and I would be happy to answer any questions.

Senator WILSON. Thank you, Mr. Miller.

[The prepared statement of Mr. Miller follows:]

PREPARED STATEMENT OF EDWARD R. MILLER

The Department of General Services is responsible for administering the surplus real proprty program for most State agencies other than the Department of Transportation. The policies and procedures governing the Department of General Services' administration of surplus real property are set forth in Government code section 11011 et seq. Each year the department asks each State agency to review all proprietary State lands under their jurisdiction and determine if any are excess to their forseeable needs. The department prepares an annual report to the legislature of property that is determined to be surplus and requests authorization to dispose of this property. Legislation is then introduced to authorize disposal. Special bills are also sometimes introduced authorizing the disposition of surplus property. If they are enacted, the Department of General Services carries out the disposition pursuant to the terms of legislation which may or may not conform to Government code section 11011.

If no State agency needs the property declared surplus, it is offered for sale to local government agencies. When the property is to be utilized for the purpose of providing housing for families of low and moderate income, it may be purchased by the local governmental agency at a reasonable cost which will enable the provision of such housing. This "reasonable" cost is based on a recommendation made by the Department of Housing and Community Development and may be substantially less than market value. In some instances, it may actually only amount to the administrative costs of the Department of General Services. Various controls are placed on any conveyance for housing purposes. Development must begin within 24 months and the property must continue to be used for low and moderate income housing for no less than 40 years or the property will revert to the State. All housing developments must be carried out according to the rules and regulations of the Department of Housing and Community Development. The actual construction and operation is generally carried out by a private sector developer under guidelines and controls of the local government agency.

Since enactment in 1978, three pieces of real property have been conveyed at less than market value to local government agencies for low and moderate income housing:

(1) 80 acres of Patton State Hospital farm land was sold to the city of San Bernardino in July 1982, at an administrative cost of $10,000. The market value of the property was in excess of $600,000.

(2) A 1½-plus or minus acre site was sold to the city of Santa Barbara in April 1982 for $114,000. At that time, the property was appraised for $700,000.

(3) A 2-acre property near Seacliff State Beach was sold to the county of Santa Cruz for $4,500. At that time, the property was appraised at $20,650.

The property in Santa Barbara has been developed for a senior citizen's residence. The other properties have not yet been developed and the Department of General Services is in the process of working with the local governments.

A recent executive order No. D-28-83 issued by Governor Deukmejian has emphasized the importance of identifying and disposing of surplus real property. This will encourage State agencies to take a harder look at their inventory and in cooperation with the Department of General Services identify properties that are no longer needed for State purposes and may be disposed of in accordance with the government code, including disposal for moderate and/or low cost housing.

Senator WILSON. I am inclined to think that we would be well to take a look at what the State has done legislatively. It sounds as though it might, if adapted at the Federal level, provide a little greater authority than currently is available to GSA to do the same kind of thing.

I also would like to see our committee pursue the subject of why we should not extend other agencies the same treatment that we have given the Department of Defense in terms of the ability to sell and replace the facilities on nonexcess lands.

I think at this point we will call our final panel, which consists of a single witness.

Gentlemen, thank you. I am most grateful to you for being here. I know you are busy, and I am very grateful for your time and the trouble that you took in preparing your testimony.

Our final witness of the day is Ward Connerly, who is the principal of Connerly & Associates in Sacramento, a consulting group. He comes to his present position in the private sector as a result of his long service in the public sector and a familiarity with private sector real estate transactions. He was the chief deputy director for the California Department of Housing and Community Development and also the chief consultant to the legislature's first committee on housing and community development, and it was then known as the assembly committee on housing and urban affairs, a venture in which he and I were associated.

Ward, it is very nice to see you here. I don't know if you have prepared a specific testimony. I have asked you to come as a cleanup witness because I wanted you to hear the comments of panel 2 and panel 3, in particular. The background has, I think, been amply described. I would be interested in your comments. I would be interested in any suggestions that you have for legislative change that would allow different agencies—and one upon which we have not touched this morning, simply by reason of the amount of time available to us, for school districts. School districts, it seems to me, have a particular problem that might be alleviated in a way that offers, as well, the opportunity to make a contribution to solving the housing problem of the elderly.

Typically, we have seen the flight to the suburbs produce a pattern of abondonment or closure of inner city schools, ironically at a time when there is a crying need for new schoolrooms, new classrooms in the suburbs, too, which population growth has moved in the recent past and not so recent past either. It has been going on for about two or three decades.

So, you have a rather broad charter. And with that, I will take no more of your time and invite you to begin.

STATEMENT OF WARD CONNERLY, CONNERLY & ASSOCIATES, SACRAMENTO, CA

Mr. CONNERLY. Senator, I appreciate the opportunity of appearing here. During the 1980 debates, the President said to Carter, "Here you go again," and to you I would say, "Here you go again."

In 1969, there was the perception in the California Legislature that housing was on the back burner as a public policy issue. It was your leadership that brought housing to the front burner through the factory built housing law and the requirement that jurisdictions have housing elements in their general plans. There is again the perception here in 1984 that housing is on the back burner; and "here you go again" in bringing it to the front burner. And, to you, all of us in the housing family are grateful for again focusing the spotlight on what is really a critical problem.

I might just summarize some of the key observations made by previous witnesses and try to put them into some context from the private sector point of view.

Ms. Gonzales today told us that a third of our elderly earn less than $4,000 per year. Eighteen percent earn less than $10,000 per year; 3.7 million people in this State are elderly. Between 1970 and 1980, the percentage of our elderly population increased by 35 percent. That's an astounding increase during a 10-year period. She indicated that housing for the elderly is a major priority of the State administration.

Reverend Harshfield reaffirmed many of the things that Ms. Gonzales said. He indicated that things are not significantly better today than they were 30 years ago, despite a lot of efforts with many Federal programs to benefit the elderly. That is not an indictment of the programs as much as it is the fact that the problem is an awesome one and requires continuing efforts on the part of all of us to resolve it. He impressed me with the fact that nonprofits an play a very vital role in providing housing for the elderly population.

He also called our attention to the fact that subsidies are diminishing. That is not a phenomenon of the last 2 or 3 years. It began about 10 years ago when the Federal Government really realized that the amount of financial resources available for housing are diminishing and that the public's tolerance for providing more and more dollars for housing just doesn't seem to be there. So he called our attention to that fact and that we require continuing efforts to provide the assistance that housing needs.

Mr. Williams pointed out that the elderly are not seeking a free lunch, that they have paid their dues and they need some sort of assistance from society to obtain the housing that they need.

Mr. Grissom pointed out to us that housing for the elderly cannot be provided by any one sector of our society alone. It requires championing on the part of the public and the private sector; and he pointed out an excellent model for us that you initiated in the city of San Diego, which involves continuing cooperation on the part of the public and the private sectors.

Ben Montijo explained to us the creative use of surplus lands in the city of San Diego to reduce housing costs, to provide below market rate financing, and to put the city and the housing commission in the forefront of identifying land. In may cases, that is really all that the private sector needs. It needs a catalyst. It needs someone to identify what ought to be done to establish the policy and to provide the leadership for something to happen.

Mr Montijo also mentioned that jobs are created, an I'm really impressed by the revenue side of it. Many jurisdictions feel—and other agencies also—that the provision of surplus lands and the involvement of government is a loser, fiscally. I really am impressed by the fact that they have made it work economically in San Diego, and I think that this is a model that Sal Solinas, who is here from HCD today, can make available to other jurisdictions.

Mr. Kauvar gave us a refreshing point of view on what the Department of Defense is doing to revise its land management policy. And, as I travel throughout the State—and our firm is involved now in about 19 cities and counties throughout the State—we find that there isn't the mentality on the part of many of them to free up surplus lands. The motives that they have as a result of proposition 13 are not to release any lands that they may have because they may not be able to buy them back. So I am really refreshed to hear that Defense has a policy that has a sound land and property mangement point of view.

Mr. Jones pointed out to us that although there are congressional limitations on the release of surplus lands, that his department can provide "creative financing" when land can be made available to State and local governments. And I don't see the fact that they can't make land directly available to a profit or a nonprofit organization as an overwhelming impediment. I think that if the cities and counties are working with the private sector, that those jurisdictions can in fact be the conduit to bringing land into the private sector. Certainly, if that impediment could be removed, it would provide for a more direct transaction. But, if surplus land is there, and if it is identified, and if the jurisdictions are wiling to work with the private sector, then we do have that conduit—namely, the State and local agencies.

And Mr. Miller, of course, indicated to us the efforts of the California Legislature and the State administration to bring more lands into the housing sector, not just for the elderly; he indicated that the legislature has given preferential treatment to housing, as they have for years to recreation.

I think the thing that I get from all of this is that we are going to have to find creative ways to provide housing for low- and moderate-income people and especially for the elderly.

Subsidies are shrinking. We all know that. We know that and understand the reasons for it. In many cases, it is not the dollars that government provides as much as it is the leadership that it provides, to effectively produce needed housing. Housing has been characterized as a process that escaped the 20th century. It is so fragmented. It is so separated by a variety of players involved in it that what we frequently need is someone to bring it all together. And, obviously, there is a role for the Federal Government. There is a role for the State government. We are hearing today that the Federal Government understands that the use of surplus and excess and unutilized lands—and I think that we should be focusing not just on surplus lands, but on those that might not have been identified as surplus—that the Federal Government understands that that can serve a pivotal role in providing housing.

I am heartened to hear and I know that this issue is a priority of the Deukmejian administration. Karney Hudge from the California Housing Finance Agency has indicated to me that that is a priority of the CHFA. I know it is a priority at HCD. It is a priority of the

Department of Aging. It is now a priority of GSA in California; therefore, it is a priority of the State administration. I believe that it can be a priority in local jurisdictions as well. There is a housing element requirement which obligates jurisdictions to identify all available sites in their communities. In many cases, however, the identification is confined to private sites and does not include sites which are owned by the local jurisdiction itself. And, it certainly doesn't include sites that might be owned by the State or Federal Government.

So, I think that by focusing this attention, as you have, on this issue, we might also begin to get local jurisdictions to aggregate these sites in their housing element. And, by identifying them and aggregating them as such, we might be able to get our "housing network" to bring whatever pressure—and I mean that in a gentle sense—to bear on the State and Federal Governments to free those lands for use.

Obviously, there is no one solution. Identifying the sites for development is not going to solve the problem by itself. You alluded to the problem of school districts. There are school districts in this State, and other States, I'm sure, that are charging obscene school impact fees—$1,500, $2,000 per unit—on housing that is built for the elderly. I don't think many elderly people are impacting schools nowadays. But the fact is that there are those kinds of impediments. So, there is one solution.

But by focusing this attention on this awesome problem, I think we can begin to get the private sector, the State and the local governments, the school districts, and the Federal Government, working together to resolve it.

So, again, at the risk of being redundant, I want to applaud you for focusing attention on this issue. And, I know that the building industry, which is one of my clients, will pledge whatever support that we can to your efforts to bring about the kinds of solutions and the tools that we need to provide housing for our senior citizens.

Thank you.

Senator WILSON. Thank you very much, Mr. Connerly. One of the interesting things, I think, that has come from this experience is that there is a great frustration on the part of the private sector. Those who have been in the business of providing shelter for profit for many years have experienced the frustration of making a reasonably good living themselves from what they do, although it is a difficult and a patience-demanding occupation. But they have experienced the frustration of finding themselves all too often in the position of being unable to build nonmarket housing for those who are in need of shelter but cannot afford it at the market rates. And many in my home community of San Diego have expressed that to me, and several felt it keenly enough to form what Mr. Montijo described as the private sector, as the construction industry's nonprofit which they have constructed for the purpose of involving themselves in this partnership.

And I think, having traveled extensively throughout the State and having had frequent contact with the homebuilding industry, that there is a common mentality and a common desire to participate in the solution. That is not peculiar to San Diego, and indeed it has been pretty much a constant.

So, I think some models can prove useful. The purpose of our hearing this morning is to focus attention on ways that the Federal Government may either legislatively or through regulatory change contribute further to providing sites and the kind of cooperation necessary to site identification so that those at the local level, like Mr. Montijo, will have the kind of cooperation that they deserve.

The underlying fact, it seems to me, that where there is cooperation between local government, and particularly those agencies of local government directly charged with the responsibility of providing housing, and the private sector, there has been an element lacking, and that is the cooperation of other agencies of government, both local, State, and Federal. And clearly, that seems to be changing.

What we would invite for your further insertion in the record, gentlemen, those of you who have participated this morning, is any additional thoughts that you might have on how we can all be more effective in this mutual effort, this partnership that involves public and private sector and all of us of government.

With that, I am grateful to those who have come this morning to particpate as panelists. I would like to note in the audience the presence of some 50 or so residents of the city of San Francisco who have come here because of their great interest in the work of the Self-Help Elderly Group of San Francisco, which currently is engaged in an effort to bring about an addition to the stock of housing for the elderly in the city of San Francisco.

With that, and with great gratitude and at least cautious optimism, I declare this hearing closed.

[Whereupon, at 12:35 p.m., the hearing was adjourned.]

APPENDIX

MATERIAL RELATED TO HEARING

ITEM 1. MEMORANDUM ON NATIONAL RETIREMENT HOUSING TRUST

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February 23, 1983

MEMORANDUM FOR: Retirement Housing Foundation

FROM: Carla A. Hills
William C. Kelly, Jr.

RE: National Retirement Housing Trust

This memorandum responds to your request for our thoughts concerning how to design and launch a National Retirement Housing Trust.

I. THE STRUCTURE OF THE TRUST

To serve these needs, we believe that the Trust should be established as a Section 501(c)(3) tax-exempt organization, so that contributions to the Trust would be tax deductible. This would be a national umbrella organization, which would be responsible for publicity, information exchange, technical assistance, and lobbying and regulatory work. The Internal Revenue Code and IRS regulations permit Section 501(c)(3) organizations (with some exceptions) to devote a certain percentage of their expenditures in any year (20 percent of expenditures under $500,000 and a declining percentage thereafter) to lobbying activities. The Trust would have a blue ribbon Board of Directors of diverse backgrounds, including distinguished citizens representing the corporate, labor, and consumer segments of our society. The Trust might later establish subsidiaries or affiliates for geographical areas or for special purposes such as project development or lobbying.

II. THE TRUST SHOULD BE A COOPERATIVE EFFORT OF THE PRIVATE SECTOR AND STATE AND LOCAL GOVERNMENT

Our principal theme is that the Trust should be a national, cooperative effort of the private sector and state and local government. In our view, it should not premise its existence and program on new national housing legislation.

This is not to say that there will not be opportunities even this year to advance the Trust's program through legislation. In the last Congress, H.R. 6296, as reported by the House Banking Committee, provided for a $1.3 billion new rental housing production program under which application would be made by states and localities and 20% of the units must be affordable for people with incomes below 80% of median. S. 2607, as reported by the Senate Banking Committee, provided for a $300 million program of rehabilitation and new construction, also upon application of states and localities, and required that 25% of the units be affordable for people with incomes below 50% of median. Senator Lugar's single-family housing stimulus program was passed by Congress but vetoed by the President.

There is now a strong feeling in Congress (particularly in the House of Representatives) and among the interest groups that some housing production program should be enacted this year, both to provide housing and to create jobs in the construction industry. But there is substantial disagreement as to the form such a program should take. The per unit cost of deep subsidies for the poor is leading many to focus on a shallow subsidy which would tend to serve middle-income renters. The Trust may well have an opportunity to utilize this type of program (which the Administration is almost certain to oppose) for the benefit of the elderly. It may also have the opportunity (or by legislative advocacy create the opportunity) to utilize programs proposed in the Administration's Fiscal Year (FY) 1984 Budget (making new construction an eligible Community Block Grant activity, creating a new Rehabilitation Grant Program, and creating a new Rural Housing Block Grant Program) facilitate the program of the Trust.

But beyond these opportunities, which need to be watched and even nurtured, our principal recommendation is to present the Trust as a joint venture of the private sector and local government. We believe that such an approach will be more attractive from the point of view of mobilizing corporate, foundation and pension fund support.

III. THE NEED FOR THE TRUST

The needs to which the Trust can respond are clear in broad outline. The percentage of the population 65 years or older is projected to rise from 11.2% today to 20% by the year 2030. Statistics show that the proportion of our population over the age of 85 is growing even faster than the over 65 group. The number of those over 85 will increase by an estimated 1.4 million before the year 2000. As the average age of the elderly increases, the percentage of elderly limited by a chronic condition is estimated to increase from 10% to 23% by 1990. Thus the need for special housing for mobility-impaired elderly is rising even faster than the general need for elderly housing.

Although significant proportions of the elderly wish to and can appropriately continue to occupy the homes in which they have always lived and others, some requiring assistance, will live with families and friends, the need for specially-designed rental housing and associated services is increasing dramatically. Some of this need, for those at higher income levels or with substantial equity, can be met unassisted through the market. But there is a large unmet need for housing for the low-, moderate- and middle-income elderly and for the frail elderly.

The principal program for meeting these needs through new construction has been HUD's Section 8 rental assistance program, which has financed several hundred thousand units for the low- and moderate-income elderly since 1974. That program is proposed for termination by the Administration, except for 10,000 units, which are coupled with below-market mortgage loans under Section 202. The Section 202/Section 8 program, funded at 14,000 units in FY 1983 and proposed by the Administration's FY 1984 Budget to be funded at 10,000 units, addresses only the needs of the lowest-income elderly and then only a small fraction of that group. In short, as the need is rising, the federal programs are being slashed for budgetary reasons. For those same reasons, no substitute federal program of any size is on the horizon. Yet the housing needs of the elderly are different from those of the general population, and changing demographics are making those needs increasingly urgent.

The opportunity is ripe to create an alternative "program" with as little direct federal involvement as possible to provide needed independent living, housekeeping, congregate and nursing care units. By avoiding the costs that federal design requirements and processing delays impose, the program should significantly reduce the cost of the housing. Private sector entities, such as non-profits, corporations, foundations, and pension funds can bring new sources of capital and expertise into the task of producing and managing housing for the elderly. The program should capture the imagination and social commitment of those in the private sector who believe that not all societal obligations should be met by the federal government. By involving state and local government, the program can obtain the grants, loans, and tax benefits needed for particular projects and can assure that the housing is built when and where needed.

IV. THE PURPOSES OF THE TRUST

Within the general concept of a joint venture between the private sector and state and local government, there are a wide variety of purposes the Trust can serve. The Trust can generate public visibility for elderly housing needs; serve as an information exchange point for those involved in elderly housing; provide technical assistance; lobby in Congress and work with regulatory agencies on behalf of the Trust's housing program; and participate in the actual financing, development, and management of specific projects. We believe that it should do all of these things.

A. <u>Publicity, Information Exchange, Technical Assistance</u>. These activities are performed on a national scale by a number of organizations, of which the American Association of Homes for the Aging (AAHA) is a prominent example. However, AAHA's principal area of interest is nursing home development. Its housing orientation has been and remains Section 202/Section 8 housing developed by small, local non-profits. These financial tools "work" because the subsidy is so deep. AAHA has not developed more sophisticated financing techniques and is not likely to do so because of the nature of its membership. Other groups are oriented to housing generally, such as the National Housing Conference and the Housing Assistance Council; the needs of the elderly generally, such as AARP and the National Council of Senior Citizens; or have a denominational orientation.

In our judgment, there remains a need for a national group to provide publicity, information exchange and technical assistance, especially directed toward financing.

B. <u>Lobbying and Regulatory Work</u>. There are a number of housing organizations active on the Hill. One of the most effective on behalf of low-and-moderate income housing over the past two years has been the National Low Income Housing Coalition. The elderly housing groups under the umbrella of the Ad Hoc Coalition for Housing for the Elderly have maintained the Section 202/Section 8 program. Homebuilder and multi-family developer groups have also been active, as reflected in Congressional passage of the Lugar bill and the appropriation of additional Tandem Plan funds last year.

Our recommendation is that the Trust not attempt to establish a permanent lobbying staff but instead embark on discrete lobbying projects on issues of particular concern. On issues of more general concern, the strategy would be to build a network with allied housing groups and work with them as they formulate their overall legislative programs.

The campaign for a shallow subsidy housing program which is described above illustrates the approach we recommend. There is a natural commonality of interest between builders and the Trust. Any new construction program benefits the builders; if targeting the elderly for that housing increases the chances that the program will be enacted, the builders should be interested in targeting the housing. There is also commonality of interest between the National Low Income Housing Coalition and the Trust. The Coalition recognizes that some shallow subsidy production program, probably in the form of a block grant, may be necessary to obtain political support for housing the poor. The

Coalition may well be open to considering elderly housing production as the principal production program. There may of course be divergences of interest with existing housing groups, but the general momentum established by these groups is likely to create legislative opportunities (which the newly emerging Trust could not), and the Trust can then take advantage of those opportunities to insure that any new housing programs facilitate the program of the Trust and protect necessary tax incentives.

Similar opportunities will very likely arise as Congress considers proposals already introduced on the one hand to extend and remove restrictions on tax-exempt bond financing and on the other hand to curb the use of federal guarantees in connection with such financing and to impose futher restrictions. As the Congress searches for ways to increase taxes to reduce the budget deficit, there will be pressure for real estate to pay its "fair share". The Trust should coordinate with other groups to make sure that any definition of that fair share does not destroy the Trust's program and, if possible, gives a relative advantage to the Trust's program over competing real estate investments.

As the Trust refines the methods of financing it proposes to use, there very likely will be a number of regulatory limitations on those mechanisms. For example, Department of Labor regulations are likely to restrict pension fund investments. To the extent that HUD mortgage insurance is used, processing times and design requirements may unnecessarily increase costs. And agencies such as the Federal Reserve System, the Comptroller of the Currency, and the Federal Home Loan Bank Board regulate the activities of many potential lenders. Currently, for example, there is controversy over whether the Federal Saving and Loan Insurance Corporation and the Federal Deposit Insurance Corporation should continue their "loans to lenders" programs which have the effect of providing federal insurance up to $100,000 for purchasers of certain tax-exempt bonds. The federal insurance lowers the interest rate on the bonds and might facilitate low-cost borrowing by the Trust.

We do not recommend that the Trust attempt, at the outset, to develop a capacity to do regulatory work, because specialization is required. The Trust can call upon our firm and any other specialists required until the Trust's program is well underway.

C. <u>Financing, Development and Management of Specific Projects</u>. It is in the area of finance that the Trust can be most useful. Existing groups have too broad a focus on housing generally, too narrow a focus on federal subsidies, or too exclusive a focus on profit to address the national need for a significant increase in new construction and substantial rehabilitation of housing for the moderate- and middle-income elderly.

The success of any program developed by the Trust will depend upon interest rates, personal income including social security, and other factors beyond the Trust's control. However, the Trust can develop financing mechanisms that will be workable if general economic conditions are favorable. These would be mechanisms drawn from general developer experience and improved where possible with additional creative ideas. The Trust should also take the lead, after consultation with the investment community and others, in identifying the type of state and local support that would induce the Trust and affiliated entities to invest in a particular community.

The Trust's approach to development will require substantial advance planning. The Trust must first determine, at least tentatively, a number of policy matters, including whether syndication is acceptable, what tenant income levels are acceptable, what types of locations (suburbs, distressed areas) are acceptable, whether rental housing or ownership or both are acceptable, and so on.

Having established a general program, the Trust must decide how to proceed with specific projects. The first few projects must be notably successful, and this will require the use of top talent. It might well be difficult to recruit such talent to a new entity. In any event, it would be prohibitively expensive to establish a new top-quality development company, at least at the outset when only a few projects would be underway. A more workable approach would be for the Trust to establish a small business development office and then to invite a first class developer in each of a few cities to develop candidate projects. Some payment from the Trust for the developer's out-of-pocket expenses would probably be required. The developer, using its knowledge of available sites and local politics, would identify a site and develop a project sketch. The Trust and the developer could bring in a local non-profit, local government officials and local foundations and corporations.

A number of different structures could then be used to finance and construct the project. Depending upon the financing mechanism used (see discussion below), the wishes of the developer, and other factors, the actual development entity could include both the Trust (or an affiliate) and the developer; or the Trust could contract for the developer's services. Alternatively, the Trust might decide to have no further development role but serve as manager of the project when completed.

The Trust might approach the National Corporation for Housing Partnerships (NCHP) for help in selecting developers and for technical assistance. NCHP might also be interested in serving as a general partner in particular projects.

For the moment, all these options should be kept in mind. It would be premature to make firm decisions on the structure of development entities for particular projects until financing mechanisms are better defined and candidate projects have been identified.

V. CANDIDATE PROJECT FINANCING MODELS

In recent weeks we have had preliminary discussions with prominent developers here and in Minneapolis regarding financing mechanisms; with the President and a Vice President of the National Corporation for Housing Partnerships; with staff at the Internal Revenue Service in the tax-exempt financing area; with HUD officials responsible for elderly housing, state agency housing, community development, and multifamily development; with a leading underwriter; and with selected interest group representatives.

Based on these discussions, we believe that the Trust has a realistic possibility of producing non-luxury housing for the elderly; that an early phase of the Trust's operation should be to launch 5 to 10 projects in cities carefully selected for the social commitment of locally headquartered corporations and foundations; that these first projects should probably be rehabilitation projects capable of being launched quickly to develop momentum; and that the role of Congress and the Administration should be to endorse rather than participate directly in the Trust's program.

Chart A outlines some of the alternatives presently available or, in some cases, proposed in the Administration's Fiscal Year 1984 Budget; for assembling the equity and debt necessary to finance for the moderate- and middle-income elderly and for managing the housing once constructed. We have assumed that no program the Trust can establish can address the needs of the lowest-income elderly and that the market, unassisted, will provide housing for the upper-income elderly. We have also, for the moment, limited the chart to rental housing.

Chart B outlines the federal, state, and local government incentives now available or proposed in the Administration's 1984 Budget.

There are several hundred possible combinations of the elements reflected on the charts. To reduce these combinations to a manageable number for discussion purposes, we applied these criteria:

(a) Use of existing government incentives. Does the financing mechanism make maximum use of available program and tax incentives?

(b) Project viability. Does the financing mechanism keep financing costs at a reasonable level and have sufficient resiliency to respond to, e.g., operating cost increases?

(c) Replicability. Does the financing mechanism lend itself to large-scale replication throughout the country?

(d) Long-term dedication of project to elderly housing. Will the financing mechanism or related contractual arrangements assure that the purposes of the program are carried out?

Based on application of these criteria, three "models" capture most of the options. Without detailing the legal limitations on each or the flourishes that might be added, the models are as follows:

A. Municipal Revenue Bond Model. Equity would be raised from tax-deductible contributions by corporations and foundations, presumably with special emphasis on donors in the project's community. The project owner would be an affiliated local non-profit. Debt would be tax-exempt municipal revenue bonds (Section 103(A)) with a high loan-to-value ratio. Since these are not general obligation bonds, a letter of credit or corporate guarantee would be required to obtain the Standard & Poor's rating necessary to sell the bonds at attractive rates. The bonds could be sold, either though private placements or public offerings, to corporations, insurance companies and/or individuals in high tax brackets. Each project would be managed by the Trust or a local affiliate.

This model makes maximum use of tax-exempt financing incentives but not of depreciation, tax credits and interest deductions. The interest rate on the debt should be relatively low, and most localities have authority to issue such bonds. This model provides perhaps the greatest assurance that the property would continue over the long-term to be elderly housing, because it would be owned by a non-profit and subject to legal restrictions on changes in purpose.

B. Industrial Development Bond (IDB) Model. Equity would be raised by partnership syndication. The general partners would be the Trust and a local non-profit or for-profit;

the limited partners would be taxable entities able to make maximum use of depreciation, tax credits and interest deductions. Debt would be raised through the issuance of tax-exempt industrial development bonds guaranteed by corporations, letters of credit or the FSLIC/FDIC loans to lenders program. Under present law, the project must serve 20% (or, in targeted areas, 15%) low- and moderate-income tenants.

This model makes maximum use of all tax benefits, raising equity from limited partners able to use tax credits (25% in the case of rehabilitated certified historic structures) and depreciation and interest deduction and placing debt at low interest rates, because of the guarantee, in the tax-exempt market. Most communities have authorization to issue Industrial Development Bonds. A major limitation is the tenant income requirement, although creative ways may be developed to use market rate rents on 80% of the units to subsidize rents on the other 20% or to combine vouchers with such cross-subsidies. Another potential concern is the syndication market. Most syndications offer a combination of tax shelter in the early years and potential capital gains through sale and recapitalization of the property before the "turnaround" point (8 to 12 years) when taxable income begins to exceed cash flow for the limited partners. If the Trust places contractual restrictions on recapitalization in order to keep rents down, there may be little interest in the syndication. On the other hand, the market may permit some limitations or the interests may be placed privately with socially-motivated investors.

C. Syndication Model. As in the Industrial Development Bond model, equity would be raised by syndication and the general partner would be either a non-profit or a for-profit. Debt, however, would be taxable. The interest rate would be kept as low as possible by corporate guarantees and would be placed with insurance companies, pension funds or banks. A somewhat lower loan-to-value ratio would no doubt be required by the lender. To the extent the syndication market permits, contractual commitments would preserve the project as non-luxury rental housing for the elderly.

This model makes full use of tax credits and depreciation and interest deductions. It is an attractive vehicle for placing debt with pension funds, which are themselves tax-exempt and therefore not interested in holding lower-interest tax-exempt debt. The absence of a tenant income ceiling means that rent levels coud be higher than under the Industrial Development Bond model. The impact of preserving the housing for its intended purpose raises the same potential problems for syndication of limited partnership interests.

D. State and Local Government Incentives. Depending upon interest rates, building costs, fees, and prospective rents, the three models outlined above may bring projects within striking distance of financial feasibility. The assistance needed to make up the shortfall will have to come from a set of state and local government incentives in the forms of donation of land and improvements, grants, equity contributions, junior low-interest debt, donation of services, and/or substantial property tax abatement. Community Development Block Grant Funds can be used for land and infrastructure improvements, as debt and equity for rehabilitaton projects, and, if the Administration's proposal is enacted, as debt and equity for new construction projects. UDAG funds have been used for these purposes, although the Administration is considering administrative measures to reduce or eliminate these uses of UDAG funds. The proposed Rehabilitation Grant Program, with associated vouchers, would be another source of funds, administered by local government, to assist in funding rehabilitation projects. State and local programs, of the kinds described on Chart B, offer a wide array of incentives, and programs in place in one state or locality could be urged upon other states or localities as incentives to attract Trust projects.

One limitation on some of these programs is that they can be used only in distressed areas, and the Trust's objective of building elderly housing without Section 8 will likely make it important to build in areas where investors perceive that a long-term market exists.

VI. RECOMMENDED NEAR-TERM ACTIONS

We suggest that, subject to your initial approval of the concepts we have presented in this memorandum, the next 60 days be used to explore these concepts with other relevant participants in an effort to determine (i) whether a new national entity would be enthusiastically received; (ii) whether there are educational, technical assistance and legislative roles that can usefully be filled; (iii) if it is possible to build a feasible financial base over the next 12 months; (iv) whether we can construct a realistic candidate list of 3 to 5 cities (presumably including Los Angeles and Minneapolis) for demonstration projects; and (v) whether we can develop a list of public officials and prominent citizens for membership on the board of the Trust.

Specifically, we recommend that in the next 60 days, the present group (RHF, Carl Terzian and our firm):

1. Discuss with developers and interest group leaders the viability of the models and any enhancements that would make sense.

(a) George DeFranceaux, The National Housing Partnership

(b) Cushing Dolbeare, National Low Income Housing Coalition

(c) Standard & Poor's

(d) Jeanne Kinnard, American Association of Homes for the Aging

(e) Thomas White, Council of State Housing Agencies

2. Discuss legislative prospects with key Congressional staff members.

(a) M. Danny Wall, Staff Director, Senate Banking, Housing and Urban Affairs Committee

(b) Philip Sampson, Economist, Senate Banking, Housing and Urban Affairs Committee

(c) Wallace Berger, Professional Staff Member, Senate Appropriations Committee

(d) Gerald R. McMurray, Staff Director, Housing and Community Development Subcommittee of House Banking, Finance and Urban Affairs Committee

(e) Anthony Valanzano, Minority Counsel, Housing and Community Development Subcommittee of House Banking, Finance and Urban Affairs Committee

3. Discuss programmatic issues with federal executive branch and state and local officials.

(a) George Hipps, Deputy Assistant Secretary, HUD

(b) June Koch, Deputy Undersecretary for Intergovernmental Relations, HUD

(c) Robert Mylod, President, Federal National Mortgate Association

(d) Walter Farr, Executive Director, California State Housing Finance Agency

(e) Richard Helmbrecht, Executive Director, Michigan State Housing Development Authority

(f) Mayor Bradley, Los Angeles

(g) Mayor Fraser, Minneapolis

4. Discuss with Congressional leaders the proposed Trust, their perceptions of whether an educational and technical assistance arm is needed; their perceptions of what Congress will do this session in the housing, tax and community development areas; their sense of what form of Congressional endorsement the Trust might obtain; and, in some cases, their willingness to serve as sponsors or board members of, or perhaps more appropriately as honorary advisors to, the Trust.

(a) Senator Garn, Chairman, Senate Banking, Housing, and Urban Affairs Committee

(b) Senator Tower, Chairman, Housing Subcommittee of Senate Banking, Housing, and Urban Affairs Committee

(c) Senator Riegle, Ranking Minority Member, Senate Banking, Housing, and Urban Affairs Committee

(d) Senator Proxmire, Ranking Minority Member, Senate Banking, Housing, and Urban Affairs Committee

(e) Senator Heinz, Chairman, Senate Special Committee on Aging

(f) Senator Dole, Chairman, Senate Finance Committee

(g) Senator Lugar

(h) Congressman St. Germain, Chairman, House Banking, Finance, and Urban Affairs Committee

(i) Congressman Gonzalez, Chairman, Housing and Community Development Subcommittee of House Banking, Finance, and Urban Affairs Committee

(j) Congressman Wylie, Ranking Minority Member, House Banking, Finance, and Urban Affairs Committee

(k) Congressman McKinney, Ranking Minority Member, Housing and Community Development Subcommittee of House Banking, Finance, and Urban Affairs Committee

(h) Congressman Pepper, Chairman, Select Committee on Aging

5. Approach foundations, and possibly corporations, for contributions to help fund the effort to develop the Trust, with the objective of raising $300,000 to be spent over 12 months. Some contributions in kind (e.g., office space, one year loan of an executive) might be sought, an approach that the Alliance to Save Energy used successfully. Identify potential contributors within 20 days.

6. Discuss with corporations, insurance companies and pension funds potential willingness to participate, appropriate roles, and modifications necessary to induce participation in project development. Identify targets within 40 days.

7. Prepare a budget and staffing plan for the next 12 months.

8. Prepare detailed analysis of permissible Section 501(c)(3) activities and optimum organizational structure for the Trust, prepare organization papers and seek IRS ruling re Section 501(c)(3) status.

9. Prepare a detailed financing memorandum as a result of the wide-ranging discussions and further research.

CHART A

FINANCE/MANAGEMENT OPTIONS*

EQUITY	DEBT: LENDER	DEBT: GUARANTOR	MANAGEMENT
1. National non-profit with deductible corporate contributions 2. Local non-profit with deductible corporate/ foundation contributions 3. National non-profit with syndication 4. Local non-profit with syndication 5. For-profit developer with syndication 6. CDBG (1984 Budget), UDAG funds	1.A. Municipal Revenue Bonds (§103(a)) (but must be owned exclusively by non-profit and/or governmental entity) B. Residential Rental Industrial Development Bonds (§103(b)(4)(a)) (at least 15% low or moderate income in targeted areas, otherwise 20%) (1986 sunset) C. Exempt Small Issue Bonds (§103 (b)(6)) (for hospitals, nursing homes) ($1 M/$10 M ceiling)	1.A. FSLIC loans to lender (through S&L) ($660 million in 1982) B. FDIC loans to lenders (through bank) C. Insurance companies D. Bank letters of credit E. Corporate guarantee of bond (SEC) or LC (no SEC) F. Private municipal bond insurance (i) AMBIC (Am. Mun. Bd. Ins. Corp.) (ii) AMBIA (Am. Mun. Bd. Ins. Ass'n) (iii) AOBI G. FHA (i) §221(d)(3)--90% loan to value (non-profits can get 100%) (ii) §221(d)(4)--90% loan to value ratio (iii) §231--90% loan-to-value (100% for non-profits)/payment in debentures H. FmHA §515	1. National non-profit 2. Local non-profit 3. Developer 4. Public entity 5. For-profit management company
	2. Insurance company	2.A. FHA as above B. FmHA as above C. Private mortgage insurance D. Bank letter of credit E. Director corporate guarantee	
	3. Pension fund	3. Same as 2	
	4. S&L	4. Same as 2	
	5. Bank	5. Same as 2	

* Other than §202/§8 program, which will finance 14,000 units in FY 1983 and is proposed by Administration's budget to finance 10,000 units in FY 1984.

GOVERNMENT INCENTIVES

CHART B

City	State	Federal Non-Tax	Federal Tax
1. Donated or low-cost city land 2. CDBG funds: a. land acquisition b. site clearance c. rehabilitation d. new construction (1984 Budget) 3. City-financed land improvements 4. UDAG funds (areas of physical and economic distress): a. land acquisition b. site improvements c. loans, loan guarantees d. equity 5. Rehabilitation grant program (1984 Budget): a. $150 million b. 30,000 units/yr	1. Loans/grants (examples): a. Alaska--Senior Citizens Housing Program ($7 M in 1981) b. California-- (i) Rural and Urban Predevelopment Loan Program ($2.75 M)--elderly housing eligible (ii) rental housing--$82 M, 70% of which available for moderate income and market rate c. Colorado--deferred loans, income targeted ($1.9 M) for rehabilitation d. Connecticut-- (i) rental housing for the elderly ($2 M) grants to local housing authorities (ii) congregate housing for the elderly--grants to local housing authorities and non-profits ($1 M in 1981) e. Massachusetts--Chapter 667 program ($77 M) for construction and rehabilitation of 1600 units of low-income elderly housing f. New York--Mitchell-Lana Program--bond-financed subsidies to limited profit entities to develop moderate and middle income projects g. Oregon--below-market loans for low cost elderly housing/financed through general obligations bonds h. Rhode Island--no-interest loans for seed money to non-profit sponsors for pre-mortgage expenses 2. Tax incentives (examples): a. Colorado--prohibits increases in assessed valuation for five years after rehabilitation of eligible projects	1. CDBG (see City) 2. UDAG (see City) 3. Vouchers (1984 Budget) a. $2,000 average/unit b. 120,340 units (i) 30,000 for rehab grant program (ii) 40,340 for HUD program conversions (iii) 50,000 other units 4. Rehabilitation grant program (see City)	1. Syndication investment deductions: a. straight line or accelerated depreciation over 15 years, 5 years straight line if rehabilitation of low-income housing b. interest c. property taxes 2. Syndication investment credits: a. 25% if certified historic structure 3. Energy credits 4. Limitation on deductions and credits: a. reductions in basis for deductions or credits taken b. recapture of accelerated depreciation deductions c. partial recapture of credits d. capitalization of construction period interest and taxes (instead of current deduction) except corporations e. straight line depreciation may be required if credits also taken 5. Tax-exempt bond income deductible 6. Charitable contribution deductions to §501(c)(3) organizations 7. Enterprise zones (1984 Budget)

City	State	Federal Non-Tax	Federal Tax
	b. Indiana--allows a ten-year partial abatement of property taxes on new construction or rehabilitation in eligible areas c. Minnesota-- (i) five-year deferral of property taxes on rehabilitated apartment buildings (ii) apartments assessed at 38% of market value d. Oregon--limited assessment for ten years of rehabilitated standard rental units or new construction in designated areas e. Florida--Community Improvement Act of 1980 allows corporations to take up to $200,000 tax credit on state income tax for projects, including housing rehabilitation, in obligated areas		

ITEM 2. STATEMENT OF NICK BRONZAN, CHAIRMAN, CALIFORNIA COMMISSION ON AGING

THANK YOU FOR THE OPPORTUNITY TO EXPRESS A CONCERN REGARDING HOUSING FOR SENIOR CITIZENS.

I AM NICK BRONZAN, CHAIRMAN OF THE CALIFORNIA COMMISSION ON AGING. MY HOME IS IN FRESNO, CALIFORNIA AND I HAVE A SON (BRUCE BRONZAN) WHO IS A CALIFORNIA STATE ASSEMBLYMAN.

OUR COMMISSION ON AGING HAS HAD AN ON-GOING POLICY OF ATTEMPTING TO PROVIDE PROGRAMS THAT WOULD KEEP SENIORS IN THEIR OWN HOMES AND OUT OF NURSING HOMES AS LONG AS POSSIBLE. AS WE HOLD PUBLIC HEARINGS THROUGHOUT THE STATE WE ARE CONSTANTLY BEING MADE AWARE THAT GOING TO A NURSING HOME IS NOT LOOKED FORWARD TO BY SENIORS. ONE GENTLEMAN IN A PUBLIC HEARING IN ANAHEIM SAID IT WELL, "I HAVE LIVED LONG AND WELL AND I AM NOT AFRAID OF DYING, BUT I AM VERY MUCH AFRAID OF GOING TO A NURSING HOME".

UNFORTUNATELY, KEEPING PEOPLE ON LOW INCOMES IN THEIR HOMES IS NOT EASY IN THIS DAY OF EVER EXPANDING INFLATION. ONE LADY IN SANTA CLARA TOLD US THAT IN THE LAST COUPLE OF YEARS, HER RENT HAS INCREASED BY 500%. THOSE PEOPLE THAT OWN THEIR OWN HOMES HAVE COMPARABLE INCREASES IN COST OF LIVING DUE TO INCREASES IN TAXES, UTILITIES, ETC.

A WAY MUST BE FOUND FOR THE EVER INCREASING NUMBER OF SENIORS ON FIXED INCOMES TO HAVE AFFORDABLE HOUSING THAT THEY CAN CALL HOME IN CONTRAST TO A BED IN AN INSTITUTION.

IT WOULD SEEM THAT MAKING USE OF GOVERNMENT SURPLUS PROPERTY AS A LOCATION FOR LOW COST HOUSING WOULD BE A POSSIBILITY FOR PROVIDING A MAXIMUM OF HOUSING FOR A MINIMUM OF COST. ASSEMBLYMAN BRUCE BRONZAN RECENTLY CARRIED A BILL THAT GAVE 248 ACRES OF SURPLUS FEDERAL PROPERTY TO THE CITY OF FRESNO. FRESNO INTENDS TO USE THIS PROPERTY FOR INDUSTRIAL DEVELOPMENT.

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