

Testimony of Jerilyn Perine
Executive Director
Citizens Housing and Planning Council
Before the Subcommittee on Housing and Community Opportunity
Of the House Financial Services Committee
Tuesday, July 10, 2007

Good morning Chairwoman Waters and members of the subcommittee. My name is Jerilyn Perine. I am Executive Director of the Citizens Housing and Planning Council. Thank you for this opportunity to testify on this important issue.

(Since 1937 the Citizens Housing and Planning Council of New York has, through its impartial research and nonpartisan advocacy, shaped and influenced public policy to improve the City's housing stock and the quality of life in New York City's neighborhoods. Its board of practitioners includes experts in the fields of urban planning, architecture, zoning and land use law, housing finance and development, and community development. They provide a practical perspective that enhances the Council's high quality quantitative research and analysis on issues affecting the City's future.)

The sale of Starrett City raises a primary issue: what is the role of government when government financed programs come to the end of their term?

In Starrett City, and in many other projects, there is widespread concern that the proposed purchase price is simply too high to allow for proper capital investment, maintenance, and operation of Starrett City, raising questions about the intent of the proposed new owners and the future of the project's physical and financial viability. Starrett City is but one example of a growing trend of high cost purchases which raise grave questions as to the continued viability of such housing.

In the case of Starrett City, as many as 20,000 people may bear the consequences. As this phenomenon grows many more people are facing the same problem.

- Starrett City, the largest subsidized housing development in the United States, has achieved affordability through a cornucopia of subsidy from the Federal government, the State of New York and the City of New York. Hundreds of millions of dollars have been poured into this project.

As a result 62 percent of the households in Starrett City currently receive direct rental assistance. Another 1,600 of the apartments are restricted to households earning less than 80 percent of Area Median Income by the §236 program,. In total 88 percent of Starrett City's households earn less than 80 percent of HUD area median income.

While it is clear that government has a valid interest, unfortunately most regulations are not designed to prevent potentially "bad" owners from purchasing projects nor do they mitigate against highly speculative prices which may call into question the future viability of the projects. While Starrett City shows what can happen when political pressure is mobilized, legislative changes are required to ensure that sales of all projects which were the beneficiary of significant government investment are properly reviewed. That review should have two objectives: to evaluate the track record of the proposed purchaser and to determine if the sales price is based on sound financial assumptions.

Currently HUD does have a process for that review. It is however severely flawed. (The review for this is the "Previous Participation Review" or "2530 process" named after the form which is filed with HUD when seeking permission to become the new owner or principal of a HUD subsidized project.) The standard of review is set forth in 24 Code of Federal Regulations §200.230. HUD reviews the new owner's participation in other HUD projects, whether they are debarred by the Federal government, whether they have been convicted of a crime, or whether they have defaulted on Federal or local housing finance agency loans.

There is however no express requirement to determine if the owner has done a good job on non-HUD related properties. Congress recently addressed this question in the area of sales of *HUD-owned* property by requiring HUD to review an applicant's record of code compliance in the local jurisdiction (Section 219 of the Consolidated Appropriations Act, 2004 (Pub. L. 108–199, approved January 23, 2004)). However Congress did not mandate a similar review where HUD financed projects were transferred from one owner to another. Congress should require such a review. Without such a mandated review, projects without the attention that Starrett City received will continue to be sold without regard to the impact that the sale may have on the project's future.

In New York City, as a result of an extremely hot real estate market, we have seen numerous purchases of rental housing, both regulated and unregulated, at prices that raise serious questions about the continuing viability of the buildings.

Owners of subsidized projects such as Starrett City have a right to ask that the City, State, and Federal governments live up to their original deal, allowing an end to the restriction period. At the same time, it is not unreasonable for the government to seek to insure that its considerable investment remains financially

and physically viable into the future. If additional affordability is desired, owners should be compensated in some way.

The State of New York is considering two pieces of legislation to make reforms to the process. I will not go into the details of those proposals here but they are included in my written testimony.

At the federal level, Congress should mandate that review of the purchasers of federally subsidized housing should include the track record of the new owner beyond HUD-subsidized housing. The new owner's performance on housing maintenance and construction should be reviewed by HUD, in concert with local authorities, prior to HUD approving any such purchase. HUD should also review the purchase price to insure that it is based on a reasonable expectation of rental income and future capital appreciation.

This principle has been included in HR 44 introduced by Representative Nydia Velazquez in January of this year. Congress should pass it and the President should sign it.

Last and most important, its time to consider how to reconfigure some of our rent and tax subsidy programs to target assistance to tenants in projects that may be sold. The Section 8 enhanced voucher program does this in part. However it should be expanded to non-federally assisted projects such as Mitchell-Lamas. The City and the State should also consider real estate tax abatement programs that are geared to rewarding owners for keeping rents affordable.

We are hopeful that your interest in the sale of this project will extend to all federally funded projects and you will pass HR44.