



Oregon

Theodore R. Kulongoski, Governor



Housing and Community Services

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News Release

October 23, 2007

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Congressional action sought to protect Oregon's Section 8 housing

Salem, Oregon – Victor Merced, director, Oregon Housing and Community Services has appealed to members of the state's congressional delegation to extend full funding for the federal affordable housing program that is vital to some 30,000 Oregonians and their families who depend upon federally subsidized rent.

"I am calling on the entire Oregon delegation to act quickly to avert a disaster," Merced wrote on October 11, 2007, to the state's national elected leaders. "The Administration is proposing cuts that threaten a collapse of our affordable housing safety net."

Funding cuts proposed by the US Department of Housing and Urban Development (HUD) would dramatically reduce project-based Section 8 monies available to Oregon. The national shortfall for fiscal 2008 is projected at \$2.5 billion.

The 2007 budget of \$5.9 billion was \$1.2 billion short, forcing HUD to make late subsidy payments this year. These subsidies flow through the books of housing project owners to the benefit of low-income renters who live in 282 developments throughout the state. Oregon receives approximately \$51 million annually in these HUD subsidies. This amount would be dramatically reduced under HUD's 2008 spending plan, cutting the subsidy payments by an estimated 30 percent or more.

"The proposed partial funding of these contracts [as proposed by HUD] will result in catastrophic consequences for Oregon's housing stock," Merced stated in his letter. He further noted, "Many affordable housing projects will be lost" to the state, "thousands of households will be displaced, and the federal subsidy keeping their rents low will be permanently lost."

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Oregon Housing and Community Services is the state's affordable housing finance agency and community services program administrator. OHCS provides financial and program support to create and preserve quality, affordable housing for Oregonians of lower and moderate income. The department administers federal and state programs that support antipoverty, homeless, energy assistance, and community services. The OHCS mission: "Provide leadership that enables Oregonians to gain housing, become self-sufficient, and achieve prosperity." For more information, visit www.ohcs.oregon.gov.



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October 11, 2007

The Honorable Earl Blumenauer
U.S. House of Representatives
2446 Rayburn House Bldg.
Washington, D.C. 20515

Re: *Project Based Section 8 Funding*

Dear Congressman Blumenauer:

I am calling on the entire Oregon delegation to act quickly to avert a disaster in the making with respect to affordable housing in Oregon.

For over 30 years, Oregon has relied on federal help to provide housing for its most needy households. The Section 8 program currently provides housing and rent subsidies that affect over 30,000 Oregonians.

Now the Administration is proposing cuts that threaten a collapse of our affordable housing safety net. The proposed HUD Section 8 budget needs an additional \$2.5 billion to fully fund project-based Section 8 contract renewals. The proposed partial funding of these contracts will result in catastrophic consequences for Oregon's housing stock:

- Many affordable housing projects will be lost at a time when there is already an under supply of affordable housing.
- Thousands of households will be displaced, and the federal subsidy keeping their rents low will be permanently lost.
- Lenders will be less willing to support additional affordable housing, as the federal government did not honor its commitments.
- Investors will be less likely to invest in low-income housing tax credits.
- There will be an increase in the defaults of FHA-insured mortgages.

These are only a few of the serious impacts that will be felt if Section 8 funding for these projects is not funded at the promised contract levels. I cannot emphasize strongly enough the importance of preserving our Section 8 housing in Oregon. Oregon relies on state supported Section 8 housing (uninsured Section 8 housing) to a much greater degree than other states. Oregon has over 10% of the nation's uninsured Section 8 housing.

The Honorable Earl Blumenauer

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In addition to the tremendous human turmoil that follows these cuts, Oregon state and local governments will face an even greater challenge to replace the affordable housing lost. It will cost three to four times as much to build new affordable housing today than it would cost to preserve these Section 8 projects that already house our very low-income and special needs populations. Even then, the new affordable housing could not be operated with the same low rents without the same federal subsidies to owners.

State and local governments in Oregon do not have resources to replace the loss of any project-based rental subsidies. Consequently, we will see more homeless households, more households in sub-standard housing, and more overcrowding in existing housing. The demand for the existing housing stock will also be heightened – putting upward pressure on rents and making stable housing less within the reach of many Oregonians. Many households will have no place to go as we are already turning away individuals and families from our emergency shelters throughout the state.

Other community problems are sure to follow when stable housing is disrupted. There will be additional strain on corrections facilities, hunger relief, health care providers, addiction treatment programs, and a decline in children's education. There will be a serious social cost that Oregon will pay for years to come.

Many organizations are working together to urge full funding of Section 8 project-based contracts for 2008. The National Housing Trust has sponsored a letter (see attachment) to the House THUD Subcommittee of the Appropriations Committee leadership to provide a budget that will enable Section 8 contractual obligations to be met. Oregon Housing and Community Services has signed on in support of the National Housing Trust proposal.

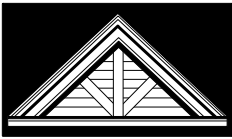
I urge you to support the appropriation of sufficient funds for Section 8 project-based contracts for 2008.

The well-being of many Oregon households hangs in the balance. Please act to preserve this affordable housing before it is lost.

Sincerely,

A handwritten signature in cursive script, appearing to read "Victor Merced".

Victor Merced
Director



NATIONAL
HOUSING
T R U S T

To: Senator Patty Murray
Chair, Senate THUD Subcommittee of the Appropriations Committee
173 Senate Russell Building
Washington, D.C.

Senator Christopher Bond
Ranking member, Senate THUD Subcommittee of the Appropriations Committee
274 Senate Russell Building
Washington, D.C.

Representative John Olver
Chair, House THUD Subcommittee of the Appropriations Committee
1111 Longworth House Office Building
Washington, D.C.

Representative Joseph Knollenberg
Ranking member, House THUD Subcommittee of the Appropriations Committee
2349 Rayburn House Office Building
Washington, D.C.

More than housing is at stake.

The undersigned organizations, representing affordable housing lenders, state and local housing agencies, investors, tenant groups, and owners, are writing to inform you of a critical situation currently threatening federal government contracts on thousands of affordable housing properties subsidized through the U.S. Department of Housing and Urban Development (HUD). Congress is poised to provide an insufficient amount of money to fully fund all project-based Section 8 contracts in fiscal year 2008.

In order for federally assisting housing to stand the test of time, the federal government must act as a fair and consistent partner by honoring the contracts it has entered into with property owners. If Congress fails to provide a full year's funding for Section 8 it's a "lose-lose-lose" situation: owners will choose the unregulated private market and the federal investment in this housing will have been squandered; residents will be displaced; and communities will suffer the loss of an essential source of affordable housing.

The current funding dilemma stems from HUD and OMB's failure to request adequate funds to renew all project-based Section 8 contracts. Over the last decade, a number of accounting maneuvers have been used, such as including "rescissions" in appropriations bills and borrowing from state housing finance agency long-term contracts to distort the actual funding needs for contract renewals. This has led us to our present situation.

In response to HUD's FY'07 request, Congress appropriated \$5.9 billion for Section 8 project-based contract renewals, an amount that has proven to be \$1.2 billion less than what was actually needed. As a result, thousands of property owners have received late Section 8 payments, forcing them to use reserves to cover operational costs. Since most owners have reserves that are inadequate to compensate for this funding shortfall, owners have been forced to cut back on paying for essential services.

Despite this funding shortfall, HUD's budget request for FY'08 is *less than* what was appropriated in FY'07, even though the number of contracts up for renewal will increase. If the Administration's current FY'08 budget request is accepted, the FY'08 shortfall will be \$2.5 billion.

The Administration's response to this crisis is to propose funding "stub" contracts. Under this plan, HUD will require owners to renew their contracts multiple times throughout the year and will not guarantee a full year of payments to property owners, as is contractually required.

The section 8 contract has already been devalued by sustained talk of inadequate funds, widespread late payments in 2007, and the inability of HUD to provide one-year extension contracts due to insufficient funds. **The following are just some of the anticipated consequences if HUD's "stub" contract solution is approved for FY'08:**

- (1) If a property receives insufficient, legally obligated funding to operate, the low-income residents, many of them elderly and disabled, may well be displaced, and a scarce housing resource will be lost.
- (2) Lenders will be less willing to make long-term loans for refinancings or purchases of Section 8 properties, transactions that are key to the rehabilitation and preservation of the our nation's affordable housing stock.
- (3) Investors will be less willing to purchase low income housing tax credits, which are key to the sale and rehabilitation of these properties.
- (4) Owners who can opt out of the section 8 program will do so at the first opportunity.
- (5) Owners will select the highest income tenants they legally can select in order to mitigate the effect of missed or reduced assistance payments.

(6) The cost of enhanced vouchers and other tenant protection vouchers will soar, or, alternatively, not all tenants will be protected if there is an opt-out.

(7) There will be an increase in defaults on FHA-insured mortgages.

(8) Affordability use restrictions that have been restructured in the mark-to-market program, which run 30 years, will be converted to permit higher income tenants to be served.

(9) For those remaining in the Section 8 program, there will be an increase in deferred maintenance, depletion of replacement reserves, and little likelihood of obtaining tax credits for rehabilitation.

(10) The lack of sufficient Section 8 funds will thwart the refinancing of older Section 202 housing for the elderly and disabled that have Section 8 subsidies. Many of these are 20 to 30 years old and can be preserved for another long period with recapitalization and rehabilitation, but lenders and investors will be wary of participating.

It is inappropriate for HUD to suggest a program of partial funding. This approach distorts the actual funding need, without addressing a critical funding shortfall.

Further, the continued delay in making payments undermines the confidence of owners, resulting in owners' terminating such contracts. It is simply not acceptable that the nation's most vulnerable people, many of them elderly and disabled, will be put out on the street because the Administration requested insufficient funds to meet its contractual obligations.

We can ill afford to lose this unique housing resource.

Please support the appropriation of sufficient funds to renew for 12 months all Section 8 project-based contracts in FY'08.

Sincerely,

National Housing Trust