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Testimony of David C. Lizarraga,
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Hearing before the House Financial Services Committee
Housing and Community Opportunity Subcommittee
September 6, 2007

H.R. 2930, The Supportive Housing for the Elderly Act of 2007

Introduction

Good Morning Chairwoman Waters, Ranking Member Biggert, and distinguished members of the committee. I am excited to be here this morning to talk to you about the importance of H.R. 2930 and the future of the HUD Section 202 senior housing program. My name is David Lizarraga, and I represent TELACU, the largest community development corporation in the United States and a developer of Section 202 Supportive Senior Housing in Southern California. We are a multi-faceted, forward thinking, community based non-profit with a variety of initiatives that are based on TELACU's mission of service, empowerment, advancement and the creation of self-sufficiency in the communities where we work.

Founded in 1968, TELACU is active in community lending, job creation, education, community development, veteran's assistance and the construction of affordable housing for our workforce and especially our senior citizens. TELACU began developing senior housing in 1975 and today, we own and operate Section 202 and tax credit financed housing communities that serve thousands and thousands of low income seniors and families in the Greater Los Angeles Area. The Section 202 program provides funding to address a particularly vulnerable group of seniors – those living on very low incomes, or below 30% of the area median income level. These are seniors with few, if any, housing options, and who need a supportive home environment where they can age-in-place.

The Section 202 program was created to be more than just affordable housing. The program develops supportive housing that enables seniors to make the important connections to community based services that will allow them to remain in their homes without unnecessarily being forced into an institutional setting just because they need some additional help. In California, we are fortunate to have both a statewide "In Home Supportive Services" program and in my community of Los Angeles, a PACE program. PACE, which is the Program for All Inclusive Care for the Elderly, is a comprehensive health management program that serves Medicaid-eligible seniors with extreme frailty. Section 202 communities, such as ours, work with these and other service providers to make aging-in-place a reality.

I want to stress the fact that supportive housing is the main component of our nation's long term care system. Most seniors prefer to remain at home and numerous studies tell us that the costs of providing affordable housing with services will prove to be a cost effective alternative to more expensive skilled nursing settings. More importantly, seniors find a greater sense of community and dignity in Section 202 sites throughout the country. However, this program faces the serious challenges of a complex financial environment, increased competition for resources and high construction costs. While the Section 202 program is a very important and good program, it is need of improvement to make it a much more effective program.

New Development of Section 202 Properties

TELACU aggressively applies for new Section 202 projects. We typically submit applications for two 75-unit projects each year. Our organization has been fortunate to have either one or both of these applications funded every year. However, we have found that the repeated under-funding of the Section 202 development awards and PRAC operational subsidies have made development more difficult to accomplish in recent years. The cumbersome process of working with HUD at both the local and headquarters levels increases project delays by sending the developer through a complicated process of underwriting. Currently we must go through layers of approval, including repeated requests for waivers from obsolete program provisions. These waivers would be better eliminated in cases where a given requirement is no longer necessary or possible. To the extent HUD feels that it needs to retain discretion in a given area, we believe it would be more effective to leave those decisions to field offices where HUD staff members are more familiar with projects and local conditions that require a variation.

TELACU, like most non-profit developers, spends a great deal of time looking for additional or "gap" financing to make up for shortfalls in HUD funding. These additional funds typically come from other federal programs administered through state or local governments, such as HOME or CDBG. In the Los Angeles area, there are some non-federal sources of funding that we pursue, such as the City of Industry Fund administered by the County of Los Angeles Community Development Commission. TELACU routinely finds it necessary to apply to the Industry Fund in amounts exceeding $1 million for 202 projects. It is not unusual for an average TELACU-sponsored 202 project to require funding from at least 4 different sources to cover shortages in project funding.

Many of these gap financing sources are awarded on a competitive basis and in funding rounds that rarely correspond with the Section 202 NOFA process. This means that TELACU's development team must prepare additional applications and wait for award announcements before, during, and after the Section 202 application process. This takes time and usually leads to more project delays that result in increased construction costs as the prices of materials and labor continue to rise. After the Section 202 awards are made, we now often find that the amount of gap financing we ultimately need often turns out to be far greater than anticipated, forcing our team to return to those entities that made initial commitments to a project to ask for additional funding. Many of the local governments we work with have expressed frustration that the Section 202 projects are beginning to feel like a "bait and switch," with the developer returning to a city and making greater demands on their decreasing pools of resources. In the City of Pomona, California, TELACU was required to return to the City asking for $900,000 more in redevelopment agency assistance than was anticipated. We are still working with the City to fill this gap, and we are quickly running out of time to do so.

Refinancing and the Future of Affordable Housing Development

As I've stated, the Section 202 Program is a great resource to serve seniors that are most in need, but clearly, it cannot serve all those that need housing. Non-profit developers, HUD and Congress must be more creative in using our resources to further our joint goal of providing more affordable housing.

To this end, two years ago TELACU made a proposal to HUD that would have allowed TELACU to refinance seven of our older Section 202 properties through a private funding source and generate approximately $28 million. The proceeds were to be used to pay off HUD's existing debt, perform certain capital improvements on the properties, and to increase our reserve for replacement account for maintenance. Our proposal had a very unique component. Due to the significantly reduced cost of our private financing, the projects would have generated approximately $800,000 annually in savings. TELACU proposed that these funds be used to create a revolving equity fund. This money would enable TELACU to leverage other financing to develop affordable homes for low income, first time homebuyers. The home sales proceeds would then be deposited back into the equity fund for new homeownership projects. Each year, this fund would be increased by another $800,000 generated by the interest savings from the 202 refinancing.

Despite the fact that our plan was overwhelmingly supported at the local level as a highly-creative model for expanding housing resources, and was also looked upon very favorably by Secretary Jackson, HUD headquarters staff ultimately denied our request to proceed with this transaction. After a year and a half of pursuing a decision from HUD, our request was denied because HUD did not want to approve the utilization of interest cost savings from 202 housing projects to benefit home ownership for low income individuals. Given the recent events in the credit market that will negatively impact millions of low income homeowners, we find this decision to have been very unfortunate indeed.

While the refinancing provisions in H.R. 2930 may not allow TELACU's savings from refinancing to be used as originally proposed, TELACU would be able to use Section 202 refinancing proceeds in excess of our projects' capital repair needs to further TELACU's housing mission. Even if we would not be permitted to create the revolving fund, we would still have an opportunity to use refinancing proceeds and savings to address the funding gaps in new projects, hire additional service coordinators, develop adequate service space in new buildings and possibly create a co-location model with commercial space available for a services provider. This added flexibility will allow housing providers to meet the needs of their various communities with clear, focused direction, as opposed to a vague, drawn out process of submitting requests to HUD with no idea if they fall within permissible policy or not.

Assisted Living Conversion Program

The Section 202 Assisted Living Conversion Program is a worthwhile program that would provide additional funding for the rehabilitation of existing buildings to provide assisted living standards for frail residents. Unfortunately, as with many states, the current version of the program does not work in California. The state's assisted level licensure increases the operational costs dramatically, which are not paid for by HUD or HHS. Furthermore, California would require that the entire building be licensed as assisted living, regardless of the individual residents' needs. As I have mentioned, we have two state programs that currently provide services to frail seniors in existing Section 202 housing through a separate funding stream.

H.R. 2930 would make properties such as ours eligible for funding to create more accessible housing for frail seniors that choose to remain in a housing setting. We are fortunate to have service providers in place and available to housing residents who are capable of providing an assisted living level of care. California is in the process of testing a limited Medicaid waiver pilot in both affordable housing and assisted living, potentially opening up a stream of funding for the licensure requirement, but that could be years away. This bill can make a difference to residents that are living in housing communities now while maintaining the autonomy of the resident to decide when and how they want to receive services.

Conclusion

I would like to express my gratitude to Representative Mahoney, Chairwoman Waters, Ranking Member Biggert and the members of the subcommittee present today for the opportunity to discuss this important legislation. The Section 202 Supportive Housing for the Elderly Act of 2007 will not only improve the ability of non-profit organizations like TELACU to develop new 202 properties; it will advance our collective goal of addressing the affordable housing shortage and increased needs of those seniors in our community. In addition, this bill takes the important step of redirecting the processing of Section 202 awards to the state or local level agencies that have the local development and financing expertise necessary to reduce costly delays.

Senior Americans will continue to face increasing demand for affordable housing and rising costs of living. Your challenge at the federal level, and ours as your partner, will be to make the most of the resources available to provide housing and services seniors can afford, and to provide that in an increasingly complex development environment. I am extremely proud of the many organizations like TELACU which are committed to bringing the Section 202 program into the 21st century with creativity, vision and fiscal responsibility. Thank you for your leadership in making this possible.

United States House of Representatives
Committee on Financial Services

"TRUTH IN TESTIMONY" DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name:	2. Organization or organizations you are representing:
David C. Lizarraga	TELACU

3. Business Address and telephone number:

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4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2004 related to the subject on which you have been invited to testify?	5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2004 related to the subject on which you have been invited to testify?
☐ Yes ☒ No	☒ Yes ☐ No

6. If you answered "yes" to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.

See attached.

7. Signature:

Please attach a copy of this form to your written testimony.

David C. Lizarraga
"Truth in Testimony"
Disclosure Form

Information for Question 6:

Emergency Capital Repair Program Grants

TELACU Plaza 122-EH-490	$316,288.00
TELACU Senior Housing 122-EH-392	$341,014.00
TELACU Terrace 122-EH-512	$4,271.00

Community Housing Development Organization

TELACU Senior Court 122-EH-489	$62,000.00

HUD 202 Grant

TELACU Pomona II Housing, Inc. 122-EE-199 (70 units)	$9,904,500.00
TELACU San Bernardino IV 143-EE-063 (90 units)	$12,530,900.00
TELACU Riverside II Housing, Inc. 143-EE-064 (75 units)	$10,444,500

Note: The aforementioned grants were all received by TELACU related entities. None of these grants were received by David C. Lizarraga.