

April 9, 2004

The Honorable Norm Coleman
320 Hart Senate Office Building
Washington DC 20510

Dear Senator Coleman:

I am writing to summarize the current issues in the Housing Choice Voucher (Section 8) rent subsidy program from the standpoint of the Saint Paul Public Housing Agency (PHA), and to ask you to support reasonable reforms and adequate funding. In the short run, the reforms must be accomplished first, and then the budgets reviewed to take advantage of any demonstrated cost savings.

I am enclosing a separate analysis of voucher program costs, current funding shortfalls, and our concerns about HUD's Flexible Voucher proposal.

HUD's budget proposal is about \$1.6 billion short of what's needed to maintain the current program, according to housing industry analysts whom we respect. That would translate into 250,000 fewer vouchers nationwide, about 12% fewer vouchers than the current supply of 2 million. As explained below, HUD staff are projecting that proposed voucher reforms may save part or all of that money eventually. However, we believe that reforms cannot save enough money, soon enough; so budget cuts now will inevitably force PHAs to take rent subsidies away from families now relying on the program.

There are about 31,000 vouchers authorized in Minnesota (according to HUD's online data systems) and we have almost 4000 in Saint Paul. A 12% cut nationwide, if spread proportionately among the states, would cut 3700 vouchers from Minnesota's supply and 480 from Saint Paul. The only way the Saint Paul PHA—and most other housing agencies—could implement cuts to that level would be to take away subsidies from families who are currently using them. Although there is some voucher turnover, attrition alone will not bring the numbers down fast enough. (We haven't issued new vouchers since September 2003, and we're seeing only a slow drop in utilization.)

The other obvious way to reduce voucher spending would be to increase each family's payment toward their rent and utilities. However, federal law and regulations prevent PHAs from doing that quickly. The PHA is required to base its voucher subsidy calculation primarily on two factors. First, the subsidy is based on 30% of the family's adjusted income. (24 CFR Sec. 5.628 and 5.634) Perhaps HUD would grant a waiver to increase that percentage, at the special request of a PHA, but that takes time. Second, the PHA sets the "payment standard" for each unit size, based on the Fair Market Rent (FMR) set by HUD. Our PHA has not raised its payment standards since October 1, 2001, even though HUD has continued to raise the FMRs (based on statistical analysis of

market rents). By HUD regulations, a decrease in payment standards cannot begin to take effect for one year, and then it is phased in (annual recertifications) over the next year. (24 CFR Sec. 982.505) So again, the PHA cannot take any action quickly to reduce its voucher spending, other than taking away vouchers from current participants.

Even if the laws and rules are changed to allow PHAs to reduce rent and subsidy levels more quickly, the program requires some stability. Rapid changes in subsidy levels would unduly disrupt participants' budgets and lives, discourage landlords from participating, and possibly subject the PHA to legal liability.

We understand that HUD officials believe they need to propose immediate cost savings to "save" the program from even more radical solutions by Congress. They also believe that reforms they are proposing will result in substantial savings, resulting in no net loss of vouchers.

We applaud our HUD colleagues' enthusiasm for cost-saving reforms, and we share their goal of reducing the voucher program's complexity and overregulation. However we are convinced that the savings will be smaller than HUD predicts, and they certainly will not materialize until FFY 2006 or later even if Congress approves the reforms this session.

In discussions with our staff and other industry representatives, HUD officials have proposed four primary sources of savings:

1. Reprogramming voucher "reserves". Saint Paul's adequate voucher reserves from past years have long since been recaptured, reprogrammed and depleted to near zero. No savings here.
2. Improved rent calculations and reduced subsidy overpayments (HUD's Rental Housing Integrity Improvement Project/RHIIP). Our local experience suggests that subsidy savings will be far more modest than HUD projects. After an intensive two-week review of almost 50 voucher files, HUD's auditors found almost no material errors in rent and subsidy calculation. Again, no potential for real savings here.
3. Reducing Fair Market Rents (FMRs). HUD does have the authority to reduce the formula for setting FMRs, and officials estimate that reducing FMRs to the 40th percentile of market rents would save \$750 million. But as explained above, potential subsidy savings from cutting FMRs and payment standards do not begin to accrue for twelve months, and then they take another twelve months to take full effect.
4. Simplifying program requirements; cutting staff. HUD officials say that PHAs will be able to reduce the number of staff administering the voucher program because the proposed reforms will streamline inspections, rent-setting, eligibility reviews and other time-consuming tasks which are now required. In Saint Paul we certainly will reduce the voucher program's administrative staff when we see

the workload going down, which hopefully will happen after Congress and HUD change the laws and regulations to implement the reforms.

Currently the pressure on PHAs is in the other direction, to track voucher utilization and spending even more closely, verify financial eligibility more stringently (RHIP again), self-audit files (SEMAP requirements), etc. Any staff cuts in the current or following fiscal year would seriously impair our ability to meet all of the program requirements, well before the proposed reforms could materialize.

In conclusion, we ask you to oppose the immediate cut in housing voucher subsidies, while supporting the reforms which are likely to generate real savings in future years.

The PHA's voucher program serves 4000 households, about 10,000 residents in all. Many of those households are headed by an elderly person or a person with a disability. Most of the rest are families with children. Almost all of the households have extremely low incomes (their average incomes are below 20% of the area median). On behalf of those families in need we ask you to work with the congressional appropriators and Administration to secure adequate funding for the Housing Choice Voucher program in FFY 2005.

Sincerely,

Jon M. Gutzmann
Executive Director

JMG/FAH

Cc: PHA Board of Commissioners
PHADA, CLPHA, NAHRO
Minnesota NAHRO

Enclosure