

PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL

InterOffice Memo

To: Jon Gutzmann
From: Al Hester
Date: May 3, 2004
Subject: Housing Vouchers; Key Talking Points

Analysis of Voucher Cost Increases

The recent cost increases for Housing Choice Vouchers (HCV) are the direct result of actions by HUD and Congress which were intended to improve the HCV program:

1. HUD dramatically raised the allowable per-unit subsidies based on “Fair Market Rent” (FMR) comparisons (statistical analysis of rising rents drove the increase, coupled with HUD administrative decision to raise the benchmark from 45th to 50th percentile of rents in tight urban markets).

HUD took those actions to counteract lower utilization in some major markets, caused by high rents, low vacancy rates, low owner acceptance, and low “shopping success rates”.

2. HUD threatened to take vouchers away from HA’s with low utilization, pressuring them to raise per-unit subsidies. HUD applied additional pressure through SEMAP’s scoring, heavily weighted toward full utilization.
3. Congress and HUD also required housing authorities to “target” assistance to families with extremely low incomes (ELI), which requires higher subsidies per unit.
4. Congress and HUD have pushed HA’s to “deconcentrate poverty” by setting voucher payment standards high enough to allow families to rent outside of poverty-impacted neighborhoods.
5. The number of vouchers has increased over the last decade (incremental awards, preservation, HOPE VI, litigation settlements, etc.).
6. In Saint Paul’s program, we have noted a disproportionate increase in the number of larger units (3 bedroom and larger) receiving voucher subsidies, which increases the average subsidy per unit.

The unit-size shift apparently has been caused by the ELI targeting requirement, combined with the “unified waiting list” required for vouchers. Now families of all sizes move up the list at the same rate. (In the previous Section 8 certificate program, the waiting lists were separated by unit size, so when a family moved out of a 2 bedroom unit, a new certificate was issued to an applicant eligible for a 2 bedroom unit.)

7. HUD improved its voucher cost analysis, reducing a substantial time-lag between estimated costs and real current costs. But that resulted in an apparent rapid cost increase on top of the real increase.
8. HCV cost increases are also inherent in the “private market model” for Section 8 that Congress and HUD backed instead of expanding public housing. Cost increases in the private rental housing market are driven by supply and demand more than by the actual costs of operating the housing. In contrast, the costs of operating public housing have remained relatively flat, although somewhat more investment is needed to keep up with modest operating costs increases and for backlogged capital repairs and improvements.
9. In other words, all of Congress/HUD’s actions “worked” and the voucher program is “fully utilized”. Success should not be punished. The fact is that the program is more costly today than it was a few years ago. (A decade ago housing industry analysts predicted that cost increases of this magnitude lay ahead.)

Current Shortfall in HAP subsidy payments to PHA

1. HUD’s monthly payments to the PHA are insufficient to cover current commitments (contracts) to landlords. Overutilization is not the cause; we are at full utilization, no higher.
2. This is caused by HUD’s attempt to “cost-save” by freezing subsidies to PHAs at August 2003 levels. HUD has data showing that the real costs per unit have risen since then.
3. Short-term, the PHA has to borrow funds from other programs (public housing). Long-term, we will have to reduce the number of vouchers under contract.
4. No advance notice or explanation was given to PHAs.
5. This is why we need reserves. PHAs were not allowed to retain a cushion from past earned fees or excess budget authority.
6. Congress/HUD’s determination to eliminate administrative fee reserves and budget reserves, coupled with the absolute prohibition on overleasing, is stretching HA’s administrative capacity to the breaking point. Whatever small savings are gained are more than offset by the increased staff time at HA’s and HUD, not to mention the hardship imposed on HCV participants.
7. Saint Paul incurred a “penalty” for overleasing (about 1% over) during the FY ended 3/31/2004. HUD has not notified us what that amount will be, but holding funds available to cover that shortfall (as much as \$400,000) further impairs our ability to respond to the current cash flow shortage (#1 above). Temporary overleasing should not be penalized.
8. The formula used by Congress and HUD to distribute voucher funds has been faulty: Congress annually recaptures \$1 billion of unused subsidies (jurisdictions with lower voucher utilization), while penalizing PHAs like Saint Paul that unintentionally overleased. The full amount appropriated for vouchers should be available for use where it is needed.

Program Reform: HUD's Flexible Voucher Proposal

We support HUD's goal of simplifying and deregulating the program, granting more local discretion on initial and ongoing eligibility reviews, inspections, subsidy levels, allowable rent levels, etc.

We have some specific concerns about the Flexible Voucher Program (FVP) proposal:

1. We share the affordable housing advocates' concern that "block grants" to HA's for FVP are likely to reduce the number of vouchers available to serve eligible families in need. We support continuing voucher grants/contracts direct to HA's instead of to states.
2. Administrative fees tied to average per-unit HAP costs would be inequitable among HA's and could create unintended effects.
3. "Incentive Bonuses" would not make up for the overall reduction in necessary administrative fees. As a high performer agency, we'd like to have fee bonuses based on good results which are within the PHA's control. However, HUD's proposed indicators may not do that (e.g., number of vouchers under lease, average cost per voucher).
4. Don't cut administrative fees; return to a flat fee with no limit on reserves or uses ("low income housing purposes").

Local impact: This PHA now receives about 8% of total HAP as an administrative fee (\$700 HAP x 8% = \$56), about \$2.7 million per year for 4000 HCVs. Cutting fees to 7% fee would be a 12% reduction, costing the PHA over \$250,000 per year. That impacts both the Section 8 budget and public housing, since the two programs share some administrative expenses.

5. The subsidy flexibility promised in the FVP may be illusory. HUD claims that "The PHA will have the ability to set and quickly adjust the subsidy levels based on their own market conditions, rather than being dependent on rents previously-determined by HUD." In fact, PHA's are constrained by laws, regulations and their contracts with owners and voucher participants. The PHA cannot "quickly adjust" the subsidy amount mid-year. Fully implementing a subsidy cut actually takes 24 months, since it is phased in with annual recertifications beginning a full year after the payment standard is reduced. HUD could compress that timetable by revising its regulations. However, rapid subsidy cuts would unduly disrupt participants' budgets and lives, discourage landlords from participating, and possibly subject the PHA to legal liability.

(The voucher program is like a steam engine at full speed with faulty brakes, with a tremendous amount of momentum. It cannot stop, turn or even slow down quickly. Fuel added previously may continue acceleration even after the engineer wants to slow down. Similarly, the PHA's past efforts to remedy underutilization continued to push utilization higher even after we stopped issuing new vouchers.)