

PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL

REPORT TO COMMISSIONERS

FROM JON M. GUTZMANN
EXECUTIVE DIRECTOR

REGARDING Housing Choice Vouchers;
HUD Funding Shortfalls;
Amend FY 2005 Agency Plan

DATE April 28, 2004

Staff recommends Board approval of several actions, listed below, to reduce the PHA's costs for the Housing Choice Voucher (formerly Section 8) program. These actions are necessary because HUD has drastically cut its payments to PHAs for both the voucher subsidies to property owners and for administrative fees, without warning or explanation. The details of the cuts were still unknown when this report was written, but HUD's payment for April costs was almost \$300,000 lower than budgeted, for a projected annual deficit of \$3.5 million. Staff believes the PHA must begin planning and acting now to avert that deficit.

Staff is requesting Board approval to implement the following specific actions when and if they become necessary, and to continue them until the budget crisis is resolved. Some of these actions are administrative and would not require Board approval if taken separately; some do require Board action; and others require amending the Agency Plan after a public hearing (after a 45 day public notice period). Because of the overall policy implications, staff is requesting Board approval or ratification of the full list.

1. Do not approve rent increases. The PHA would deny property owners' requests to increase rents for tenants who are voucher participants.
2. Reduce payment standards as quickly as permitted by HUD regulations, to reduce subsidies paid to property owners. Current regulations delay implementation of this method of cost cutting for 12-24 months after Board approval, but HUD staff say that a new notice or regulation to be issued "soon" will allow faster action to reduce subsidies.

Reducing the payment standard and HAP would require the tenant to pay a larger share of the rent, unless the property owner agreed to reduce the rent. (The PHA last increased its payment standards on October 1, 2001.)

3. Increase the minimum rent payment for voucher participants to \$50/month, instead of the current \$25/month minimum. This would affect only about 200 current households with vouchers and generate relatively little savings.
4. Delay issuing new vouchers to “PBA movers” (families who wish to move out of developments which have project-based assistance/PBA) until adequate funding is available to support all current vouchers and PBA commitments for the rest of this fiscal year.
5. Freeze new lease approvals (again) for voucher participants who are shopping for a different unit. Since some families have already vacated their previous unit or would have to do so while the freeze would be in effect, some hardships could result. Waiving the freeze (that is, approving a new lease) in hardship cases would lessen the impact on some voucher participants.
6. Delay executing Housing Assistance Payments (HAP) contracts with PBA developments previously approved by the Board and HUD, which are nearing completion of construction or rehab work and planning to begin leasing units with the voucher subsidies soon.
7. Delay approval of the new PBA projects tentatively identified for approval in the most recent “SuperRFP” from the Minnesota Housing Finance Agency (MHFA). In a separate report on this agenda, staff is recommending approval of 27 PBA units for two new projects, but with several provisos: The PHA cannot sign new HAP contracts for those projects units until vouchers and funding are available; the PHA will sign contracts with previously approved PBA projects first, etc.
8. Restrict voucher “portability” (mobility to other jurisdictions) to reduce administrative costs and perhaps encourage some families to relinquish their voucher.

9. Offer voucher participants incentives to give up their vouchers. Families who are willing to move to public housing (and who meet the eligibility requirements) could be offered a priority transfer when a unit of the appropriate size becomes available. Perhaps some other voucher participants would give up their voucher voluntarily, especially if the Agency could offer financial incentive of some kind.
10. Establish a procedure to cancel or “non-renew” vouchers currently in use. This is obviously a drastic action but it cannot be ruled out at this time. HUD staff are urging housing agencies to “wait and see” before canceling vouchers. However, staff at the PHA and the housing industry groups doubt that HUD can find the money or create another solution quickly enough to avoid serious funding shortfalls here and elsewhere.

Background:

- On December 17, 2003 the Board approved the revenue budget for the voucher program for FY 2005, requesting HUD funding of \$38,337,758 for HAP subsidies and administrative fees for the 3,984 authorized vouchers for tenant-based assistance (“TBA”) and 75 Moderate Rehabilitation units at Mary Hall . The voucher HAP amount was calculated on a projected cost per unit-month (PUM) of \$723, based on the actual voucher costs from April 1 – November 30, 2003 and cost increase trends (see attached chart “HAP Trends”). The voucher administrative fee request was \$56 PUM based on HUD’s formula. HUD has not approved the PHA’s FY 2005 voucher subsidy request, as of this date.
- On January 22, 2004 Congress approved the FFY 2004 HUD appropriation bill, for the year that started October 1, 2003. Housing industry groups monitored and commented on HUD’s planned implementation of the voucher provisions in that bill.
- On March 5, 2004 NAHRO wrote to HUD PIH Assistant Secretary Michael Liu, expressing concerns about voucher funding in FY 2004 (copy of letter attached). However, on March 25 HUD confirmed its intent to base renewal funding on August 1, 2003 per-unit costs, plus an inflation factor.

- On April 5, 2004 the PHA received its first monthly payment from HUD for the voucher program for the new fiscal year, to pay HAP and administrative expenses in April. The check (electronic transfer) was for \$2,876,705 instead of the \$3,171,728 average monthly payment we had budgeted. (We actually had requested \$3.3 million because this April is a “three-payday month” and so the administrative costs will be higher than other months.)
- The attached news reports are a sample showing the nationwide impact of the voucher funding crisis.
- On April 14 the PHA hosted a meeting on voucher funding issues with the executive directors from MN NAHRO, Minneapolis Public Housing Agency, Dakota County Community Development Agency, Metropolitan Council HRA and other agencies. Each agency summarized its voucher situation and exchanged strategies for reducing costs.

FY 2004 Overutilization. As explained in a March 24, 2004 Board report and discussed at that meeting, the Agency’s previous efforts to achieve full utilization (100% of authorized vouchers under lease and contract) resulted in overleasing. New rules imposed by HUD and Congress and during the year required the PHA to cover the costs of overutilization from sources other than the voucher appropriations for FFY 2003. By March the utilization rate was back down to 3,987 (3 units overleased) but the overutilization tally for the year was 457 unit-months. Staff still does not know the exact cost to the PHA for those additional unit-months, but it appears to be about \$375,000. The PHA will cover that cost with funds from the Building Fund and the Public Housing Operating Reserve, as approved by the Board in March.

The current voucher budget situation is not related to overleasing, except for the fact that the use of those reserves for FY 2004 costs severely limits the PHA’s ability to absorb future deficits

caused by HUD underfunding. The PHA would have no ability to absorb a \$3.5 million deficit in FY 2005.

Current voucher funding situation. As shown on the attachments, there has been a flurry of activity and controversy surrounding the Housing Voucher program in recent weeks. Briefly stated, HUD decided—without formally announcing—that this year it will allocate voucher subsidies to housing authorities based on their actual HAP costs for the three months prior to August 1, 2003, with an “adjustment for inflation” which also has not been announced. Saint Paul’s PUM HAP cost reported on August 1, 2003 was \$655, compared to the \$723 PUM projected in the FY 2005 revenue budget. HUD staff say that unlike prior years, this year there will be no mid-year voucher budget revisions to keep pace with increased costs. Instead, housing authorities will have to “live within their budgets” for the entire fiscal year, reducing their voucher costs as necessary or drawing on other reserves if the HUD funding is insufficient. (Agencies which raise their utilization rate after August 1, 2003 can request additional funding, but that will not help agencies that were utilizing all of their vouchers, like the Saint Paul PHA and Metro HRA.)

During FY 2004, the TBA voucher costs for the year averaged almost \$740 PUM (\$739.88), which included \$684 PUM for HAP and \$56 for administrative fees. The actual HAP PUM for the month of March was just under \$707 (\$706.76); with the \$56 administrative fee the total voucher cost in March was \$763 PUM.

For the Saint Paul PHA and many other housing agencies, the impact of reduced voucher funding is huge, and totally unexpected. As explained above, HUD's voucher subsidy payment to Saint Paul for April —without explanation—was \$2,876,705 instead of the \$3,171,728 we had budgeted. At that rate, the PHA will be underfunded by about \$3,540,000 for the fiscal year. That deficit equals the projected annual cost of 360 vouchers (at \$723 PUM). If the Agency maintains full voucher utilization for the first six months of the fiscal year, twice that number of vouchers (720) would have to be canceled for the remainder of the year to bring the costs down to HUD's current funding level. Or, if the PHA could somehow freeze voucher costs at their March 2004 HAP cost levels (\$707 PUM), 275 vouchers would have to be canceled for the entire year, or 550 for the last six months.

HUD's justification for this unprecedented cut in voucher subsidies is that Congress' concern over "spiraling voucher costs" requires HUD to impose major cost controls. Housing industry analysts say that HUD has misinterpreted Congress' intent and language. Although HUD staff say the subsidy cuts are authorized and necessary, they are urging housing authorities to "stay the course" and not cut vouchers just yet, at least until forthcoming HUD guidance is released. The HUD guidance has been promised for several weeks.

Staff believes that the PHA cannot wait much longer for HUD guidance, but should begin to lay the groundwork for policy and procedural changes to balance its voucher program budget during this fiscal year, assuming the initial subsidy cuts remain in place. To gain community understanding and comments, staff intends to follow the public notice-and-hearing process required for amendments to the PHA's Agency Plan for FY 2005. Staff will publish a notice that

the PHA is considering changes to the Plan, scheduling a public hearing early in June. Before that date staff will try to convene meetings with the Resident Advisory Board, property owners, low income housing advocates and other stakeholders. As mentioned above, staff has already met with the directors of MN NAHRO and the largest voucher programs in the Twin Cities, and we will maintain contact with those agencies. The Executive Director has also spoken directly to Gerald Benoit, HUD's national director for the voucher program and Senator Coleman. Mr. Gutzmann and other PHA staff are consulting with the three major housing industry groups (PHADA, CLPHA and NAHRO). Staff will continue to advocate for responsible reforms and adequate funding in the voucher program, and at the same time try to position the PHA to weather whatever budget cuts come to pass. Aside from the financial costs, the conflicting messages and threats of severe budget cuts are placing a heavy burden on program participants, who are all low-income families depending on this assistance, and on the hardworking and dedicated PHA staff who are trying to administer the program fairly and consistently, in compliance with all (changing) requirements.

JMG/FAH/

Attachments:

- Voucher Cost Data and Projections
- Jon Gutzmann Letter to Senator Norm Coleman, April 9, 2004
- Real Estate Industry Letter to Congress – April 9, 2004
- NAHRO DirectNews: Washington Update: FY 2004 Voucher Renewal Implementation Notice Imminent – April 15, 2004
- NAHRO Letter to HUD Secretary Jackson – March 1, 2004
- NAHRO Letter to HUD Assistant Secretary Liu – March 5, 2004
- New clippings from Sherwood News Digest, 4/21/2004