

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 June 23, 2004

Staff recommends Board approval of several actions, listed below, to reduce the PHA's costs for the Housing Choice Voucher program. These recommendations are different from those discussed at the previous Board meeting in several respects, for the following reasons:

1. HUD Restrictions. HUD issued new guidance on June 14, in a national "webcast". HUD officials placed new restrictions on permissible PHA actions, undercutting the primary cost reduction strategies being considered in Saint Paul and elsewhere.
2. Public Comments. The PHA held a public hearing on June 15, 2004, after giving a 45-day public notice (as required for Agency Plan amendments). The "community sentiment" expressed at that public hearing was that the proposed 15% cut in all contract rents created too much liability for both owners and tenants.
3. More HUD funds? On June 16, Senator Coleman offered to assist the PHA again in aggressively seeking supplemental funds from HUD. We are working with his office to prepare a request to further replenish our "project reserves" and to appeal the inflation factor HUD used to calculate the PHA's voucher subsidy for this fiscal year. We will enlist the assistance of Senator Dayton and Congresswoman McCollum in this effort as well. (Letter from Senator Coleman received on June 18, copy attached.)

On May 20, 2004 HUD authorized another \$910,765 to be added to the PHA's project reserves for the voucher program, which was not enough to bring the reserves up to the necessary level.

4. Other PHA Funds. Based on the public hearing comments from property owners and tenants alike, staff is recommending that the PHA take on more of the budget shortfall burden by committing funds from other programs. The Building Fund has always made

contributions to other important but non-HUD funded initiatives (jobs programs and other programs and events for residents, homeownership, Boys & Girls Club, and HousingLink). A small sum could be used for voucher costs, now that the new building is completed and commercial leasing activity is underway.

5. Other PHA Funds. Staff is now also recommending using the some of the proceeds from recent sales of vacant public housing property adjacent to Roosevelt Homes and Ravoux Hi-rise to help reduce the voucher shortfall. (Habitat for Humanity bought both parcels.) Those proceeds “belong” to the public housing program and were intended to partially offset the cuts HUD made to the public housing program last year. (The original public housing subsidy shortfall estimate for FY 2004 was \$2.4 million, but the actual cut ended up being \$1.03 million, at 94.7% of full funding.) Given the current emergency funding shortfall in the voucher program, the more immediate need is to help make that program whole. Selling assets to meet operational costs is obviously not a viable long term funding strategy and HUD may object to the use of “public housing” funds in this manner. However, with no taxing or bonding authority, and with insufficient assistance from HUD, the PHA has to consider all means of generating resources to support voucher subsidies.
6. New data on market rents (“Rent Reasonableness”). New market rent data for Saint Paul show modest declines in rents over the last year. Saint Paul has not seen the dramatic drop in market rents that some cities experienced (for example, Boston). However, in addition to declining rents, there is abundant evidence of equivalent increases in incentives (free 1-2 months’ rent, “signing bonuses”, etc.). Staff believes this evidence supports the recommended strategies of modest reductions in current contract rents, reduction in payment standards, and no rent increases until the market changes.

Based on all of the above factors and using the most recent voucher cost data (April and May costs) it may be possible that the PHA can balance the Section 8 Voucher budget for this fiscal year by reducing costs by an amount somewhat less than the earlier \$3 million estimate.

However, because the number of variables is high and the outcomes unknown, any reduction in a savings “target” must be made with caution.

To achieve program savings, staff is requesting Board approval to implement the specific actions listed below, effective September 1, 2004 unless stated otherwise. Because of the overall policy implications, staff is requesting Board approval or ratification of the full list. Some of these actions are administrative and would not require Board approval if taken separately; some do require Board action; and others require Board approval and then become amendments to the Agency Plan. As required for Plan amendments, the PHA held a public hearing on June 15, 2004, after giving a 45-day public notice. The revised staff recommendations respond to many of the comments from the public hearing, from tenants and their advocates, and from property owners.

1. Reduce contract rents by 7%, to 93% of current rents, based on “rent reasonableness”.
The current voucher contract permits the PHA to reduce rents at any time based on rent reasonableness without canceling the contract or lease. The attached report from HousingLink shows that from May 2003 to May 2004 rents in Saint Paul have declined by 2-4% in most categories. Those rents are effectively reduced even more by the ubiquitous “free month’s rent” offers (equal to an 8.5% reduction in one year’s rent) and similar incentives. Therefore staff believes a 7% reduction in current rents is warranted.
2. Reduce payment standards to 93% of Fair Market Rents (FMRs). This action would be effective September 1, 2004 for new leases signed by “voucher movers” and any new leases required by property owners for current units at annual renewal time. The lower payment standard would be phased in over 12-24 months for other current tenants as directed by HUD regulations, not immediately for all contracts as staff had proposed earlier. This will reduce the HAP subsidies paid to property owners over time, and will not require canceling and reissuing contracts. It would take effect at the second annual

recertification for tenants remaining in their current units. Since full implementation of the lower payment standards will phase in over two years for 12-24 months after September 1, 2004, the cost savings to the PHA will be delayed. This longer transition period will allow both tenants and property owners more time to make decisions based on the new rent and subsidy levels.

3. Based on “rent reasonableness”, do not approve rent increases. The PHA would deny property owners’ requests to increase rents for units as long market comparables continue to support the current contract level.
4. Request more HUD funds to replenish project reserves. During a national “webcast” on voucher funding on June 14, HUD staff stated that housing agencies’ project reserves were being restored to 50% of the full one-month level. However, Saint Paul received only \$910,765, which is less than one-third of the authorized reserve level of about \$2.8 million. Staff will renew our earlier request for the full \$2.8 million, but even based on HUD’s statement the PHA is entitled to another \$500,000.
5. Request more HUD funds by increasing the voucher cost inflation factor. Before July 15, the PHA will appeal to HUD to increase the “Annual Adjustment Factor” which HUD used to adjust the average voucher per-unit-cost above the August 1, 2003 base figure. Staff has identified several distinct factors which have increased voucher subsidy costs in Saint Paul faster than general real estate costs. This will give HUD another opportunity to provide the necessary subsidy to keep Saint Paul’s vouchers fully utilized.
6. Use other PHA funds to supplement HUD subsidies for vouchers. Staff recommends that the Board approve contributing \$200,000 from the Building Fund to the Voucher fund. Of that amount, \$175,881 remains in the Building Fund’s contingency account and is no longer needed, now that the construction is complete. Staff believes that almost \$25,000 in revenues from building operations can be added to that sum to total \$200,000.
7. Use other PHA funds to supplement HUD subsidies for vouchers. Commit up to the full amount of the net sales proceeds (\$370,185) from the sales of vacant parcels of land adjacent to Roosevelt Homes (\$239,855) and Ravoux Hi-Rise (\$130,330). This would be

a departure from the Board's "full repayment" directive attached to the inter-fund loan approval (discussed in a separate report on this meeting's agenda).

8. Review and refine the PHA's current "rent reasonableness" method. Staff believes the current method has produced valid results, but it still should be reviewed and updated.
9. Allow transfers to vacant units in PHA hi-rises, for voucher participants with admission preferences (elderly and disabled persons) who meet public housing eligibility standards. This would provide a safety net for some vulnerable single adults, if the owners of their rental units stop accepting vouchers. It may also induce some tenants to move voluntarily, giving up their voucher. (The PHA still needs to reduce voucher utilization to fulfill its commitments to developments with project-based assistance.)
10. Homeownership. Staff will continue to explore options for voucher participants who have almost enough income and/or savings to purchase a home. We hope that one or more partner agencies will provide the extra "boost" those families need to purchase a home, giving up their voucher.

The following actions are still necessary and will be continued for the time being until the funding shortfall eases:

1. 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.
2. Delay approval of any new PBA projects. Do not participate in the "SuperRFP" process from the Minnesota Housing Finance Agency (MHFA) until approved by the Board at some future date. The PHA cannot sign new HAP contracts for units in already-approved projects until vouchers and funding are available.

Several strategies discussed earlier are no longer under consideration and are not recommended:

1. The PHA will not cancel all HAP contracts effective September 1, 2004 and offer new contracts with 15% lower contract rents and 10% lower payment standards.
2. The PHA will not 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.
3. The PHA will not establish a procedure to cancel or “non-renew” vouchers currently in use. The Board, staff, participating tenants and owners have all rejected this “solution” at this time. However, some housing agencies are taking this step.
4. The PHA will not restrict voucher “portability” (mobility to other jurisdictions) to reduce administrative costs. Since Saint Paul is already one of the higher-cost jurisdictions, staff believes there would be little savings in this action.
5. The PHA will not “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.
6. The PHA will not 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.

The attached resolution will be submitted to HUD with the revised Agency Plan, to incorporate the recommended voucher program changes if approved by the Board. A second copy of the Agency Plan certification will be submitted immediately, as requested by HUD staff requested to accompany the most recently submitted Agency Plan revision. That revision made technical

corrections and updated the description of scattered site home sales, including the disposition and replacement of the Brimhall property, which the Board approved on February 25, 2004. A copy of the most recent Agency Plan revision will be available at the Board meeting.

JMG/FAH/

Attachments:

June 17, 2004 Letter from Senator Coleman
Analysis of Reductions in Contract Rents and Payment Standards
Resolutions - Nos. _____ (2) (Agency Plan)