Housing Authority –County of Los Angeles

February 27, 2007

To: Each Supervisor

From: Carlos Jackson, Executive Director

SUBJECT: SECTION 8 HOUSING PROGRAM UPDATE

INTRODUCTION

In response to your February 20, 2007 Board Motion, I am providing you with a status of corrective actions that I have put in place to improve the Housing Authority of the County of Los Angeles' (Housing Authority) current Troubled rating of the Section 8 program by the U.S. Department of Housing and Urban Development (HUD). As you know, the Housing Authority administers approximately 20,500 Section 8 vouchers on behalf of the County. Additionally, I will answer the question of whether a Section 8 tenant can live in a home that is valued between $750,000 and $800,000.

Since the implementation of HUD's program assessment rating in 1999, this is the first time that our Section 8 program has been designated as Troubled. We have taken proactive actions to remove the County's Housing Authority from Troubled status and this report will provide you with an update of those actions. I am confident that the major steps that we have undertaken will result in the Housing Authority becoming a satisfactory performer. As I will describe in further detail below, we have recently received feedback from HUD program staff that we are moving in the right direction to improve our program. We expect HUD to issue their final reports in late March or April 2007, at which time we will have an opportunity to respond to the reports.

BACKGROUND

HUD Program Assessment Rating

On October 31, 2006, HUD' designated the Housing Authority as a Troubled Section 8 program for fiscal year ending June 30, 2006. This designation came as the result of an annual assessment, which covers 15 key program areas. The Housing Authority received a below satisfactory score of 50 percent. A Section 8 program is designated Troubled when it scores below 60 percent. We received 73 out of a possible 145 points with a passing score being 87 or more points. We were delinquent in three major program areas – voucher lease-up rate, timely conduct of unit inspections, and timely completion of annual reexaminations of tenant eligibility.

Programmatic/Administrative Deficiencies
In early spring 2006, and prior to the various HUD reviews, I undertook a close examination of both the programmatic and operational areas of the Section 8 program, which also included a review of our performance as a measurement against HUD's assessment rating system. At the conclusion of this review, I noted the following:

- There was a lack of sufficient applications in the pipeline to create a steady stream of voucher issuance.

- Although there was an awareness of the problem, there was a lack of a management plan to address the delinquent inspections and reexaminations, in addition to a misinterpretation of the regulations by staff, which further exacerbated the issue.

- The existing operational model lacked the capacity to address the workload volume of staff and the demand by participants and landlords.

- There was an inconsistent application of policies and procedures by staff, and a lack of program direction, resulting in ongoing crisis management.

Housing Authority Steps Taken
As a result of our independent assessment, the following major actions were taken:

- **Lease-up** – Beginning September 2006, we implemented an aggressive plan to increase the volume of participants in the pipeline to yield a higher utilization of our vouchers. As part of this plan, we also implemented an effort to contact and follow-up with both participants and landlords to obtain outstanding information necessary to complete a successful contract.

- **Inspections** – In September 2006, we implemented a new management plan to eliminate the high volume of delinquencies and establish a performance standard for inspectors.

- **Reexaminations** – We established a dedicated team to work exclusively on eliminating the delinquent reexaminations.

- **Reorganization/Management** – On November 1, 2006, a reorganization model was created to change the workflow from one of a case management to a functional approach (staff are now assigned to specific functions versus having clients assigned to them to handle all aspects of

client participation). In addition, a new management team was appointed to oversee the operation of the program.

In support of the reorganization, we contracted with several consultant firms to provide expertise in establishing a new management direction, to conduct staff training in the application of Section 8 program requirements, and to establish quality control systems in the program.

Additionally, I authorized the competitive procurement of a new software program for the Housing Authority in order to meet the needs of the Section 8 and Public Housing programs. The procurement has been completed and, within the next 30 – 45 days, a recommendation will be submitted to your Board for approval.

CURRENT PROGRAM STATUS

Since our official Troubled designation, there has been tremendous attention given to improving our performance. This comprehensive approach is inclusive of both programmatic and administrative activities designed to create positive long-term results.

Housing Authority Accomplishments and Goals

- **Lease-up** – My intention is to achieve a 95% lease-up rate by June 30, 2007. Currently, our lease-up rate is at 83%, which is a decline from our rate of 88% in July 2006. Of the three major deficiencies, this remains the most challenging due to other factors beyond our control that I discuss below. I anticipate that the following activities will result in an increase in our lease-up rate.

    - Between September and December 2006, over 23,000 families from our waiting list were contacted.

    - Approximately 11,000 applications for housing were received. We expect that for every two vouchers issued, one family will be successful in leasing-up.

    - Of the 11,000 families, 5,596 have been determined to be eligible and have received, or are about to receive, a voucher. Of those families:
        - 1,428 families are under contract for housing;
        - 1,063 have found housing and are awaiting final execution of contracts; and
        - Approximately 3,000 families are in the final stages of being issued a voucher.

Although we have taken major steps to establish an ongoing pipeline of applications to ensure a higher utilization of the vouchers, our efforts continue to be impeded by two significant factors beyond our control:

- **Local rental market** - the authorized fair market rents for Section 8 housing generally fall below market rents.

- **Enterprise Income Verification (EIV) system** - the EIV system, which was implemented in late 2005, has resulted in an increase in the number of terminations due to income discrepancies reported by participants. The new system matches participant wage information obtained by the Housing Authority with information that HUD receives from the National Directory of New Hires. While the implementation of this new system has assisted us in addressing Section 8 fraud, it has also impacted our lease-up rate.

- **Inspections** – I have established the goal of having a less than 5% delinquency rate in our annual inspections by June 30, 2007. To date, we have reduced the delinquency rate to 10%, which meets HUD's standard, from a high of 34% on July 1, 2006. I would like to assure the Board that all contracted units were and are being inspected. This deficiency pertained specifically to the timeliness in which we conducted our inspections. Presently, our inspections are being completed two months in advance of the required timeframe of 12-months.

- **Reexaminations** – I have set a goal of conducting 95% of all annual reexaminations by June 30, 2007. On October 1, 2006, we had 4,700 delinquent reexaminations. To date, we have reduced the delinquent reexaminations by 50% to 2,337. Our original target date of March 1, 2007 to eliminate delinquent reexaminations has been revised to June 1, 2007.

HUD ASSESSMENTS

As previously reported in my November 2006 communication to your Board, I have had ongoing interaction with HUD's program assessment staff, which also includes a separate fiscal review team, and the Office of Inspector General (OIG). The program staff is responsible for working directly with us in implementing a Corrective Action Plan (CAP) to remove us from a Troubled status. The OIG has been auditing our programs in the areas of housing inspections and reexaminations.

HUD Program and Financial Staff Assessment
The program assessment staff was complimentary of the actions that we have undertaken to achieve a satisfactory rating. They have reviewed numerous

program areas including lease-up, eligibility, and inspections and have indicated that we are moving in the right direction to correct our deficiencies.

HUD's fiscal review team examined the accountability of our financial systems to ensure that we were in compliance with their fiscal requirements. The staff has also was complimentary of the CDC's financial system and its capacity to manage federal funds.

HUD OIG Staff Assessment
As previously reported to the Board, HUD's OIG has been auditing our Section 8 program since mid-July 2006 in the areas of tenant eligibility, and annual inspections and reexaminations. As way of background, the OIG conducts audits of Public Housing Authorities' performance.

The OIG report will confirm what I have previously indicated to you, that we were significantly delinquent in conducting our annual reexaminations and inspections. As a result of the delinquent reexaminations of eligibility and numerous calculation errors, I anticipate that the OIG will announce that the program may face a finding of unsupported costs associated with delinquent inspections and reexaminations. I will provide you will additional information on this matter upon receipt of the report.

HUD Consultation Meetings
I have established joint monthly meetings with local HUD program staff to review our progress towards meeting our production goals and our implementation of new organizational activities. The first meeting was held on February 23, 2007.

FINANCIAL IMPACT

Due to our underutilization of vouchers in the Section 8 program this past year, we have been adversely impacted by the recent passage of the Federal Fiscal Year 2007 HUD Appropriations which made changes to the Section 8 funding formula. As a result of this change, which was signed into law by the President on February 15, 2007, the budget authority for the Housing Authority will be reduced by approximately $33 million. Based on our new budget authority, we have preliminarily determined that, at the present time, we can sustain a voucher level of between 18,000 to 19,000 vouchers. This will allow us to continue to provide assistance to all current participants and those that are in our pipeline, given a two to one lease-up ratio.

We will not be closing our waiting list, but we will allow new participants as attrition occurs in the program. In anticipation of improvement in our performance, it is possible that the current baseline funding could increase in future years.

RENTAL PROPERTY IN THE ANTELOPE VALLEY

Your Board motion raised the question of whether Section 8 rents are determined by home value. The federal regulations governing the Section 8 program dictate that rents be determined based on fair market rents, not home value. Therefore, the Housing Authority does not take into account the value of homes in a community or the incomes of the residents living there. We are required to base the contract rent on comparable rents of the area. Under Fair Housing law, we are prohibited from steering applicants to any community. Therefore, the voucher holder has the right to choose the location of the housing, provided all program requirements are met.

For your information, the particular house referenced in your motion has a monthly contract rent of $2,057, which is within the fair market rents allowed by HUD for a 4-bedroom house. The HUD allowable rent for such a unit in that area is $2,256.

CONCLUSION

All of our efforts have been implemented with the goal of removing the Housing Authority from its Troubled rating. I wish to compliment the Section 8 and CDC staff, and their commitment in working together to make this happen. I am confident that the major steps that we have undertaken will result in the Housing Authority being rated a satisfactory performer.

CJ:sm

c: Each Deputy
Chief Administrative Officer
Executive Officer
Housing Commissioners