Housing Authority - County of Los Angeles

November 17, 2004

To: Each Supervisor

From: Carlos Jackson, Executive Director

SUBJECT: PROPOSED CHANGES TO THE SECTION 8 HOUSING CHOICE VOUCHER PROGRAM

On July 20, 2004, your Board approved recommendations for the Housing Authority of the County of Los Angeles to implement changes to the Housing Authority's Administrative Plan governing the Section 8 Housing Choice Voucher Program. At that time, the Housing Authority projected a funding shortfall from the U.S. Department of Housing and Urban Development (HUD) for FY 2004-2005 of approximately $8 Million. The changes in the Administrative Plan were intended to reduce the funding shortfall. The Housing Authority was instructed by your Board to report back on our efforts to mitigate the impact in funding.

The Board approved the following:

- Change in the rent reasonableness methodology.
- Verification of full-time student status for family members 18 years and older.
- Reduction of the Payment Standard to 100% of the Fair Market Rent (FMR).

These changes were implemented effective September 1, 2004.

Budget Projections

Following an appeal to HUD, the Housing Authority was successful in receiving an additional $5.1 million -- $3.8 million for housing assistance payments and $1.3 million to be added to our operating reserve balance. The current operating reserve balance is $5.2 million. This funding reduced our projected shortfall from $8 million to $3.7 million.

Prior to the Board's approved changes, our estimated monthly housing assistance costs (i.e., payments to landlords) were $14.3 million. The September 1st changes enabled us to lower these costs to $13.9 million - approximately the same amount of funding we receive from HUD. The savings were only realized for one month, because in September HUD published new fair market rents (FMRs), which are 10% higher than when the Board approved the change in the payment standard. The new FMRs will cause costs to rise again, and we will be required to use our operating reserves to meet our financial obligations to landlords and tenants.

HUD is expected to further reduce our monthly housing assistance payment funding from $13.9 million to $13.6 million, effective January 2005; thus resulting in a greater funding shortfall which must be funded from our current $5.2 million operating reserve balance. We have projected that by the end of the 04-05 fiscal year, our operating reserve balance will decrease from its current $5.2 million to $1.5 million. Operating reserves will be fully depleted by November 2005, if we do not implement further cost-saving measures.

In order to reduce the current projected loss of funds, the Housing Authority must now take additional actions. The recommended actions listed below take into consideration the fiscal stability of the agency, which is critical to preserving the rental assistance program and, as always, minimizing the impact on the Section 8 families receiving assistance and the landlords who voluntarily participate in the program. They are consistent with recommendations published in a recent HUD notice, which announced the decreased funding to all housing authorities. As demonstrated in Attachment 1, these new policies are similar to those in place at other large California housing authorities.

Recommended Immediate Actions

Following is a discussion of recommendations for implementation beginning January 1, 2005.

1. **Reduce Payment Standard** – It will be necessary to change the payment standard from 100% of the FMR to 90% of the FMR. HUD's FMR increase of 10% will offset the savings we expected to realize from the Board's actions in July that became effective September 1, 2004. The new payment standard will not affect any additional families other than those previously identified. Participants remaining in their units will receive a one-year notice, but the proposed change will take two years to fully implement. Only current program participants who decide to move and new applicants will be immediately affected.

Attachment 2 demonstrates how the reduced payment standard will allow the Housing Authority to provide families with housing assistance in approximately the same dollar amount per bedroom approved by your Board on July 20, 2004.

2. **Modify Occupancy Standards** – The Housing Authority will establish a policy of two persons per bedroom for all families. The "two-per-bedroom" standard is well within space requirements of HUD's Housing Quality Standards. Under our current policy, a four-member family may receive a subsidy for a three-bedroom unit, depending on the family's age and gender composition. In this example, the family will be limited to a two-bedroom voucher.

This policy change will affect all families at their next annual reexamination. At that time, a family may choose to "downsize" or remain in the larger unit and pay the differential. Families who decide to move prior to their annual reexamination will be "right-sized" immediately. We anticipate that 3,364 families and 356 seniors, or 18.3% of current participants will be faced with the decision to remain in current housing or move to a unit within the new occupancy standard.

Attachment 3 shows how sample families may be affected. We will review the cases of families and seniors who have legitimate needs, followed by an appropriate determination. We anticipate that the lower subsidy amounts may save the Housing Authority up to $4 million in calendar year 2005.

3. Family Self-Sufficiency (FSS) – The Housing Authority will suspend new admissions to the FSS program. The FSS program, an unfunded HUD mandate, promotes the development of local strategies to enable families to achieve economic independence and self-sufficiency. Upon employment, FSS participants continue to pay rent in accordance with the Housing Authority's housing choice voucher procedures. Whenever the participant's rent increases, the Housing Authority matches the amount of the increase and assigns it to an interest bearing escrow account. If the family successfully completes the contract of compliance obligations within 5 years, the family can apply to graduate from the program and receive the accrued portion of their escrow account.

The Housing Authority was formerly mandated to enroll 1,200 families in the FSS program. We have exceeded the goal and the admission of new participants is optional.

There are 989 families currently enrolled in FSS. Based on families who have previously graduated, the average escrow account is $7,280. The Housing Authority may therefore be obligated to pay out $7.2 million over the next five years, should all FSS participants graduate from the program. The families currently enrolled will not be affected and the Housing Authority must and will honor all escrow accounts.

4. Restrict Portability – Under the Section 8 Program, families are permitted to relocate anywhere in the country. A housing authority accepting one of our families can either absorb them by using one of its own vouchers, or bill us for the cost of the family's housing. If the receiving housing authority bills us, the payment comes from our HUD allocation, even if the family has moved to a higher cost area outside of our jurisdiction. Funding is limited and we must use the available resources to continue assisting our families before committing funds for use in another jurisdiction. The Housing Authority recommends restricting portability to higher cost areas, unless the family can be absorbed.

5. Conduct Interim Reexaminations - Tenants are required to submit information affecting eligibility income at all times. These changes in the family income include increases and decreases received by the family. HUD requires that when a family reports a <u>decrease</u> in income, the Housing Authority MUST conduct an interim reexamination to recalculate and immediately decrease the family's portion of rent. However, when a family reports an <u>increase</u> in income, a Housing Authority MAY conduct an interim reexamination and give the family a 30-day notice of increase or delay the increase until the next annual reexamination. Because of the time and work involved in revising contractual documents, the Housing Authority's current practice is to increase the tenant rent only at the time of the annual re-examination.

Rather than wait, we propose to conduct interim reexaminations when a family's income increases. This change should not cause a financial hardship on the families, because rent calculations are always proportionate to the change in income. In addition, rents will not exceed 30% of family income. This change follows HUD's recommendation that housing authorities begin doing interim reexaminations for income increases to save money. The Housing Authority has not done this in the past; therefore, there are no records to determine the impact on the Section 8 operation cost.

6. Require Action to Secure Child Support For Dependent Children – The Housing Authority provides housing assistance to a large number of single-parent households. Some of them may not receive any child support for their dependent children from the absent birth parent. The housing subsidy is calculated on a family's reported income; the higher the family income, the lower the subsidy. Our goal is to have our families maximize all income to which they are entitled, thereby reducing the financial burden on the Housing Authority. If families are unable to document that they have taken action to obtain child support for their dependent children, we will provide information regarding the Child Support Services Department.

<u>Recommended Future Actions</u>

1. Close Waiting List – We are considering not accepting additional applicants for the Section 8 waiting list. Although this would not save a large sum of money, there are operational costs directly attributable to the administration of the Section 8 waiting list. More than 130,000 households are on the list, waiting an average of 7 to 10 years to be assisted. Currently, there are 55,041 in-jurisdiction families and 11,460 in-jurisdiction senior citizen families on the list. The remaining households live outside of our jurisdiction.

The current trend shows that families are stabilizing and remaining on the program for an extended period of time. Therefore, there is little movement of the waiting list. Over the last three months, we issued 82 vouchers to applicants from the waiting list. Closing the waiting list will reduce the number of complaints we receive about the lengthy delays. Despite the ability of applicants to access information electronically or through our automated telephone system, they often consume staff time registering for the program or making inquiries and complaints in writing and by telephone. Upon closing the list, we will advise the public on how they might receive assistance in the future, as well as direct them to our conventional public housing program.

2. Modify Method of Applying Utility Allowances – Currently, the Housing Authority must provide utility allowances for all participants. Utility companies offer low-income families a discount. The Housing Authority does not take this discount into consideration when calculating a family's utility allowance. We will conduct an analysis and develop a table listing the discounts provided by each utility company and deduct that amount from the utility allowance provided to the participants. This is considered a prudent measure in reducing costs, and also prevents "double dipping" by families that are already receiving the discount and Section 8 utility allowance. It is unknown at this time how much savings will result from this reduction of the utility allowance.

Prior to implementation, the Housing Authority will conduct a study to assess the current utility discounts and provide information to families on how to apply.

Conclusion

We have developed these recommendations with the purpose of maximizing the dwindling funds from HUD. Our intent is to avoid extreme measures that will reduce the number of landlords and families on the program. HUD's 2005 budget proposal does not provide stable funding; therefore, we must be prepared to exhaust every possible means to reduce costs. I am requesting the flexibility and authority to make program modifications to preserve the fiscal integrity of the Section 8 program, in response to HUD's program changes now and in the future. Your Board will be appropriately notified as these changes occur.

In accordance with the Board's legislative agenda, we will work closely with the CAO and the County's legislative staff in Washington, D.C. to make Congress and HUD aware of the negative impact of recent and proposed changes to the Section 8 Program.

If you have any questions, please contact me at (323) 890-7400.

CJ:sm
Attachments

c: CAO
Each Deputy

Attachment 1

ACTIONS TAKEN BY SIX CALIFORNIA HOUSING AUTHORITIES

Long Beach Housing Authority – 6,244 vouchers

- Payment Standards: 100% of new FMRs
- Occupancy Standards: 2 persons per bedroom

San Diego Housing Commission – 12,300 vouchers

- Payment Standards: 110% of 2002 FMRs
- Portability Restrictions: Not accepting port-ins because they are overleased

Oakland Housing Authority – 11,142 vouchers

- Payment Standards: Percentages vary by bedroom size
- Occupancy Standards: 2 persons per bedroom

San Bernardino Housing Authority – 8,400 vouchers

- Payment Standards: 100% of new FMRs

San Francisco Housing Authority – 21,000 vouchers

- Payment Standards: 110% of new FMRs
- Occupancy Standards: 2 persons per bedroom

Sacramento Housing Authority – 11,000 vouchers

- Payment Standards: 90% of new FMRs

Attachment 2

RECOMMENDATION # 1
Reduce Payment Standard

Action: Reduce payment standards from 100% to 90% of the Fair Market Rent. This reduces the amount of housing assistance payment (HAP) or subsidy paid by the Housing Authority.

Example:

Fair Market Rent/Payment Standard

Sequence	Date	FMR/Payment Std.	0	1	2	3	4	5
		FMR	$674	$807	$1,021	$1,378	$1,646	$1,892
		Payment Std. @ 110% of FMR	$741	$887	$1,123	$1,515	$1,810	$2,081
Board Approved Changes	**Eff. 9/1/04**	**Payment Std. @ 100% of FMR**	**$674**	**$807**	**$1,021**	**$1,378**	**$1,646**	**$1,892**
New HUD FMRs	**Eff. 10/1/04**	**FMR**	$746	$900	$1,124	$1,510	$1,816	$2,088
Current		**Payment Std. @ 100% of FMR**	$746	$900	$1,124	$1,510	$1,816	$2,088
Recommendation	**Eff. 1/1/05**	**Payment Std. @ 90% of FMR**	**$671**	**$810**	**$1,011**	**$1,359**	**$1634**	**$1,879**

The following case studies reflect the impact on a hypothetical household with Payment Standards at 90% and 100% of FMR.

Case Study A

Hypothetical Household with 2-bedroom Voucher
30% of Adjusted Monthly Income (AMI) = $265

	90% of FMR	**100% FMR**
Payment Stds	$1011	$1124
30% AMI	$265	$265
HAP	$746*	$859

*Difference in saving of $113 monthly or $1,356 annually.

Case Study B

Hypothetical Household with 3-bedroom Voucher
30% AMI = $430

	90% of FMR	100% of FMR
Payment Stds	$1359	$1510
30% AMI	$430	$430
HAP	$929*	$1080

*Difference in saving of $151.00 monthly or $1812 annually.

Effective: Contracts and leases will be negotiated with the lower payment standard for new participants and for current participant moving to new units.

Impact on Tenants: Tenants are required to absorb the difference between the rent and the reduced subsidy amount. Currently, 88% of families pay 30% or less of their adjusted monthly income (AMI) toward rent. It is projected that at 90% of payment standard 81% of the families will pay on average 27% of their AMI toward rent.

Some tenants may not be able to absorb additional rent expense and may have to relocate to a new unit.

Impact on Owners: Owners will continue to receive same amount of rent.

Owners may lose tenants, if tenants cannot absorb additional rent.

Attachment 3

RECOMMENDATION #2
Modify Occupancy Standard

Action: Establish a policy of 2 persons per bedroom. Affected families will have a choice to remain in the larger bedroom size unit and pay the difference in cost, or to relocate to a smaller bedroom size unit and avoid additional costs. This reduces the amount of housing assistance payment (HAP) or subsidy paid by the Housing Authority.

Example: The following case studies reflect the impact on a hypothetical household currently living in a 3-bedroom unit. Case A family chooses to relocate to a 2-bedroom unit, Case B family chooses to remain in the 3-bedroom unit.

Case Study A

	Currently in 3 Bedroom	Move to 2 Bedroom
Payment Standard	$1510	$1124
30%	$430	$430
Contract Rent	$1400	$1100
HAP	**$970***	**$670**
Tenant Portion	$430	$430

*Difference in saving of $300 monthly or $3,600 annually.

Case Study B

	Currently in 3 Bedroom	Remain in 3 Bedroom
Payment Standard	$1510	$1124
30%	$430	$430
Contract Rent	$1400	$1400
HAP	**$970***	**$694**
Tenant Portion	$430	$706

*Difference in saving of $276 monthly or $3,312 annually.

Effective: This change will occur at the families' annual re-examination.

Impact on Tenants: 3,720 households, or 18.3% of current participants, would be affected. Tenants may choose to relocate or pay a higher portion of their rent. The average household that remains in the larger unit would pay an additional $176.00 per month toward rent.

Impact on Owners: Owners may lose tenants if families chose to relocate. For families that choose to remain in their unit, owners will continue to receive the same amount of rent, but a larger portion will come from families.