Yolo County Housing

Lisa A. Baker, Executive Director
147 W. Main Street
WOODLAND, CA 95695

Woodland: (530) 662-5428
Sacramento: (916) 444-8982

DATE: July 9, 2009

TO: YCH Board of Commissioners

FROM: Lisa A. Baker, Executive Director

SUBJECT: **REVIEW AND APPROVE STRATEGY FOR VOUCHER COST CONTAINMENT**

RECOMMENDED ACTIONS:

That the Board of Commissioners authorize the Executive Director to:

1) Request a short term advance of funds from the end of the calendar year;
2) Reduce Payment Standards across the board to 90% of FMR in both the City of Davis and the balance of the jurisdiction and request a waiver from HUD to allow for immediate across the board implementation;
3) Use a portion of its Administrative Fee Reserve in an amount not to exceed $125,000 to cover HAP costs where it is deemed feasible and in the Agency's best interest;
4) As a last resort, Reduce Payment Standards across the board to 85% of FMR for the City of Davis and the balance of the jurisdiction and request authorization from HUD for the 85% standard and a waiver for immediate implementation and to return to the Board for consideration prior to implementation; and
5) To report to the Board monthly on progress made in cost containment.

BACKGROUND/DISCUSSION:

Background

Housing Assistance Payments (HAP), made on behalf of Housing Choice Voucher holders, are a direct pass through from the U.S. Department of Housing and Urban Development (HUD) to individual landlords on behalf of eligible tenants. HAP is separate from funds earned by Yolo County Housing (YCH) for administration of the program.

The County as a whole faces many economic challenges. Jobless rates in Yolo County have topped state rates and the four-county Sacramento region. In addition, issues with the State and local government budgets also have an impact, both in the County as a whole and with the YCH. Supplemental Security payments (SSI) for the poorest and most vulnerable of the elderly and disabled population declined on May 1st and again on July 1st and there have been reductions to CalWorks payments as well. All of these factors have impacts on our client populations.

As unemployment, joblessness and benefit reductions climb, incomes of assisted households continue to fall. Although this affects revenue in our public housing programs as well, it is our voucher program that is being the hardest hit by the economic difficulties. Reduced hours, fewer agricultural jobs and actual job loss mean that the cost per individual voucher has risen and program attrition (the number of households who permanently leave the program) continues to drop.

Rents, however, have continued at their current rate. As of October 2008, when HUD published its new Fair Market Rents (FMRs), rents had continued to rise over the prior year. At this time, rents appear to be stagnant with fewer landlords asking for rent increases, but they do not appear to be falling appreciably. This may be due to several factors, including lag time between income drop and rent reductions, as well as households entering the rental market due to foreclosures in the single family market. Add to this that homes vacated as a result of foreclosure, even if rentals in their last use, remain vacant until sold by banks that are reluctant to rent them out. This has the effect of tightening the quantity of units available, increasing competition for existing rentals. Staff is continuing to monitor the situation to determine if and when market conditions will change.

Compounding the problem for the YCH, revenues from HUD have not risen to cover the costs of voucher payments. The YCH has an Annual Contributions Contract (ACC) from HUD for 1,487 Vouchers. Because of the revenues received, the YCH has not been able to fully fund all vouchers. Currently, Voucher utilization is at 1,345 +/- units, which is approximately 142 fewer vouchers than ACC. However, costs average at about $100,000 (rounded down) per month more than receipts.

Efforts to date

Staff and the Board have been working to manage this situation since it was first reported to the Board late in 2008. To date, we have taken the following proactive steps:

- Did not adopt 2008 FMRs as new Payment Standards in order to slow the use of subsidy for individual units;
- Informed HUD early on of this emerging issue;
- Worked with the National Association of Housing and Redevelopment Officials (NAHRO) to make this emerging issue known to HUD and to Congress;
- Stopped issuing vouchers;
- Recalled outstanding award letters for vouchers;
- Returned applicants to the wait list;
- Stopped absorbing portable vouchers relocating from other jurisdictions;
- Dropped subsidy standards so that bedroom size are issued by family size instead of by family composition;
- Asked other jurisdictions to absorb our vouchers when they relocate to another jurisdiction;
- Made application for a portion of the $100 million set aside in HAP funds for PHA's with increased housing costs that was included in the Stimulus package.

These measures have yielded results and have slowed the monthly increase in HAP on average by approximately $43 per voucher per month (or a total drop of approximately $58,000 per month, rounded, or $696,000 annually), prior to the latest round of SSI reductions.

In addition, we have continued to use Employment Information Verification (EIV) matching data to be sure we are receiving accurate information regarding employment and other household income, ensuring reasonable rents and completing our reexaminations on time.

In addition, we received past due revenues from HUD in the amount of $207,685 for the months of January through May. HUD had been paying the YCH a prorated amount based on prior year funding until passage of the federal budget. In addition, revenues increased from $677,241 per month to $691,752 per month. Current monthly costs as of June 2009 are $804,000 (rounded down).

Revised Projections, Status and Recommendations

When staff gave an updated report to the Board as part of the March mid-year reallocation, staff projected that without a change in revenues or additional measures it would exhaust HAP reserves at the beginning of July 2009. Due to revenue increases and program changes outlined above, staff have been able to extend that to the end of August 2009 even with the higher than anticipated voucher usage that has resulted from the drop in attrition.

However, we cannot continue to operate the program as is without terminating the assistance of families on the program. Without taking more serious action to reduce costs, we will be forced to terminate at least 170 households from the program by October 2009.

As we look at options, it is important to note that we need to maximize the amount of households on the program through December 2009, in order not to be penalized under the current funding formula into subsequent years and further erode our ability to serve the community. The way the current formula is structured, it looks at leasing and expenditure data October through December to determine the amount of funding we will receive in the next year. If we cut leasing and expenditures too much during this time, funding will be cut and the voucher program will continue into a downward spiral of affordable units lost to the community. All options being considered are designed to both remain as leased as possible into the reporting months, while ensuring there is sufficient funding to carry us forward. In addition, the YCH is paid its administrative fee based on each unit it has under lease. If the YCH terminates families, it will also cut the amount of funding available for administration, thereby putting the operations side of the program in jeopardy and potentially creating an unbalanced budget for the current fiscal year that has just started.

At its March meeting, the Board authorized staff to put together a package of options it can implement in order to bring expenditures in line. Staff has finalized that package, including discussions with the affected departments at HUD. The following is the recommended strategy:

1. **Request a short term advance of funds from the end of the calendar year**. This would be an advance to cover September and possibly a portion of October. HUD authorized this in their Triage call with staff in June. This would give the YCH time for the following:

a. See if it is successful in its application for set-aside funds. The documentation requirements for the unforeseen circumstances (such as rising unemployment) are very difficult to meet and over 900 Public Housing Authorities (PHA's) have applied, which is approximately one-third of all agencies in the country. HUD should finalize its review in the next week. Once it is complete, it will generate award letters and contracts. There will inevitably be a lag between award and access to funding. If the YCH is successful, it will need time to access funds and to see if those funds are sufficient to carry it through the year. The YCH made its application based on fiscal year, but award will most likely be made on calendar year. If sufficient funds aren't appropriated or if the government does not pass its budget on time, the YCH could still suffer from lack of funding or prorated amounts beginning in January.

b. An advance would also give us time to implement other strategies for cost containment with good notice to households. However, it should be noted that this would be an advance, not a loan and would be repaid by December. Therefore, staff's recommendation is conservative and would only cover September and part of October. Some agencies have had multiple advances. The YCH has so far been able to "weather the storm" using its existing resources, so this is a conservative approach and one that HUD also agrees is beneficial at this time.

2. **Reduce Payment Standards across the board to 90% of FMR in both the City of Davis and the balance of the jurisdiction and request a waiver from HUD to allow for immediate across the board implementation.**

a. Because of the YCH's conservative approach to subsidy payments, current payment standards are at 105% of FMR for the high cost area of Davis and at 96% of FMR for the balance of the jurisdiction. This would represent a reduction in subsidy of approximately 6% for the majority of households and 15% for the City of Davis, which is averages fewer than 300 households out of the 1,345, or about 20%+/- of caseload.

This would net the YCH monthly HAP savings of approximately $51,000, or approximately half of the monthly shortfall. If this is approved and the waiver granted, HAP changes could be implemented as early as October 1, 2009. If the YCH receives an advance for October, this would carry households forward through October with no loss of households and, if the YCH is granted minimal funding through the set-aside application, possibly through year end, thereby maximizing leasing and expenditures into the data collection months for next year's subsidy. HUD also explored this option and was favorable to it in its Triage call with staff in June.

If the YCH is not successful in its set-aside application, it will need to take more drastic steps to maintain its portfolio. With that in mind, staff recommends two (2) additional strategies to be used only as necessary:

3. **Authorize staff to use a portion of its Administrative Fee Reserve to cover HAP costs.**

a. While HAP cannot be used, under the statute, to cover administrative program costs, administrative fees are able to be used to cover HAP costs. In 2006, when the administration at YCH changed, there were no administrative fee reserves. With prudent management, staff was able to set aside both HAP and administrative fee reserves. HAP reserves, as reported in this document will be exhausted in the next month, leaving only administrative fee reserves. For a number of reasons, it is not prudent for management to use all the existing fee reserve to cover HAP costs. Those reasons include a) need to use reserves to cover unforeseen operations costs; b) reserves on hand are used to calculate fiscal health of the agency in its PHAS/SEMAP scoring. If the YCH has no reserves on hand, it will continue to be a troubled agency; c) if the YCH uses administrative reserves to cover HAP prematurely and then gets set-aside funds, it will not be able to use those funds to reimburse its use of fees, thereby losing them permanently.

b. That being said, staff recommends that up to $125,000 be set aside to help make HAP payments as necessary to carry us through the balance of the fiscal year. This is a prudent investment in ensuring that we capture enough utilization and leasing data for next year's formula and to ensure we are not short-changed in the formula for next year so that we can continue to serve households in these difficult times. If we are successful in cutting costs with the advance and with Payment Standard reduction, this would potentially carry us through December 2009.

4. **Reduce Payment Standards across the board to 85% of FMR for the City of Davis and the balance of the jurisdiction and request authorization from HUD for the 85% standard and a waiver for immediate implementation.**

a. Generally, regulations require that Payment Standards can be no less than 90% of FMR and no more than 110% of FMR without approval by HUD. The San Francisco Office of HUD has reported to staff that it has already approved one waiver of the 90% standard for an 85% of FMR Payment Standard and would consider a request from YCH if it became necessary. While staff would need to notify residents that Payment Standards might fall again from 90% to 85%, it would still be possible, with the timing available, to implement this as early as October 1, 2009.

This would a last effort that we would need to use to keep households in occupancy if we are not successful in receiving any set-aside funds. Immediate implementation of this option would generate monthly savings of approximately $94,500. However, this option, without lower rents in the community, would generate very high rent burdens that many households might not be able to meet. Attrition could potentially rise as households would be forced to try to find other accommodations that might not exist in the marketplace.

Families who lost their voucher assistance through this mechanism would no longer be on the program and would not be able to return to the wait list. Staff understands this issue and wants authority to implement, but only as a last resort. Families would be notified of this possibility at the same time as they are notified of the upcoming reduction of 90% of FMR, but staff would come back to the Board to ratify implementation of this option prior to implementation. The Board could determine at that time that it would rather terminate families and use the ability to return them to the wait list rather than drop subsidy standards and see families lose assistance to attrition.

If the Board approves these recommendations, staff will move forward and will also report to the Board monthly at the Board meeting of progress made on cost containment for this program.

FISCAL IMPACT:

Failure to take actions to control costs will result in insufficient funds to provide subsidy to existing families.

CONCLUSION:

The Board of Commissioners should approve the recommended actions.