

**STAFF REPORT**  
**SECTION 8 SUBSIDIZED HOUSING PROGRAM**  
**-FINANCIAL UPDATE-**  
**4/27/2010**

As the City of Ames Public Housing Agency (PHA), the City administers the federal Housing Choice Voucher Program, more commonly known as the Section 8 Housing Choice Voucher Program. This program provides subsidized housing for low-income families and individuals across the country. Program funding for rental assistance is passed through to landlords, and PHA's also receive funding for administration of the program. **It should be emphasized that while this program is currently administered by the City, the services would be provided by another PHA if the City of Ames chose not to serve as the PHA.**

**Over the years there has been a significant amount of public discussion concerning specific aspects of our federally funded Section 8 Housing Program. During this same period, the City staff has warned the City Council that our ability to maintain the administration of this program into the future while relying only on revenue from the Department of Housing and Urban Development (HUD) is in serious doubt. Therefore, during Council's February budget hearings, staff suggested that a review of this program's financial status be made by the Council in the near future. Because of a substantial turnover among our Housing Division employees, it is an opportune time to decide if the Council wishes to continue administering this federal housing program before commitments are made to hire replacements.**

Funding of the Section 8 Housing Program from HUD over the last several years has been in an unpredictable flux. Due to pressure from Congress, HUD has changed the formula and timing for funding Housing Authorities, and has gone from a need basis to a budget basis. Over the years staff has informed Council regarding HUD's continued reduction in administrative fee reimbursements. Due to budget shortfalls at the federal level, at one point HUD recaptured the administrative fee fund balances from Housing Authorities like Ames who had accrued those balances through careful program administration. In response to this funding uncertainty, our Housing staff has tried to adapt by shifting staff time into other programs and using other stop gap measures.

In April 2009, staff notified Council of the financial shortfall that Ames, along with Housing Authorities across the country, was experiencing due to the country's economic crisis. The shortfall led us to suspend accepting applications for the program to prevent the number of pending applications from exceeding 400, which would have extended the wait time beyond five years. We also stopped pulling names from the waiting list to fill openings, since we were spending approximately \$25,000 more per month in Housing Assistance Payments (HAP) than what we were receiving from HUD. That step led us to dip heavily into our HAP program reserves. Since June 2009, the program has been staffed by the Housing Coordinator and one full-time support staff person, augmented with 2-3 temporary

employees. A decision to delay hiring of permanent staff was dictated by this financial shortfall. These were all stop gap measures put into place until we received notification of our 2010 funding allocation, and could evaluate whether or not the City could and should use local tax monies to cover anticipated long-term shortfalls.

As reported to the City Council during the FY 2010/11 budget process, the level of administrative funding provided by HUD for Section 8 is not adequate to cover the cost of administering the program for the City of Ames as a stand alone PHA. HUD has allowed Section 8 PHA's to accumulate and maintain an administrative fund balance. The current balance for the City of Ames is approximately \$39,500. We expect that the Section 8 administrative fund balance will be exhausted in the upcoming year and that alternative (local) funding will be required if the City plans to continue administering the program.

Our current budgeted expenses for administration for FY 2010/11 will exceed expected revenue provided by HUD to administer the program by approximately \$35,000. Given the trend in funding for administration over the past several years, we expect this funding shortfall to increase each year as we continue to administer the Section 8 program. This only tells part of the issue related to administration of the Section 8 program. Due to difficulty in meeting all the Section 8 administrative requirements within the funding levels provided by HUD, there has been pressure to not fully meet all administrative requirements and to use staff time funded by other programs for Section 8 administration. Both of these situations put the City at risk for program compliance. City staff estimates that fully funding administration needed to operate the Section 8 program will result in an administrative funding shortfall of approximately \$117,000 per year.

There are several **options available for funding the program**. Short-term solutions include use of the Housing Assistance Fund balance accumulated from various housing programs over the years. This fund has approximately \$200,000 in a fund balance and would only fund Section 8 for less than two additional years at a fully staffed level. If we are able to close out the County-Wide Affordable Housing Program, additional one-time funding would be available. However, much of that fund balance is tied up in loans, so other funds would need to be used to carry Section 8. Not only are these options short term in nature, adopting this option would eliminate the Council's ability to implement other affordable housing related programs that it may consider useful to meet its goal to Strengthening Neighborhoods.

**If the Council chooses to continue with City administration of the Section 8 housing program, a permanent additional funding source should be identified. The most likely options would be to increase property taxes, to compete with other human service agencies for funding from Local Option Sales revenues, or some combination of both.**

Changes made in administrative funding programs described earlier in this report have clearly favored PHA's with larger programs than the City of Ames. Small PHA's such as the City of Ames have struggled to administer the program with the funding provided by HUD. This has led to the consolidation of programs into PHA's than can more efficiently

administer the Section 8 program by spreading fixed administrative costs across a larger number of vouchers.

To assist Council in weighing various options, staff has identified four possible scenarios for continued operation of the mandated Section 8 program in Ames.

#### Option 1 – Return Section 8 Program Administration to HUD for Reassignment to Another Agency

Under this option, the City would relinquish the Annual Contributions Contract back to HUD for them to designate another program administrator for the City of Ames. HUD would contact Housing Authorities in the surrounding area to determine their interest in administering the program for the Ames jurisdiction.

HUD has stated that they would require any Housing Authority that would agree to administer the program to keep the allocated Vouchers for the “Ames jurisdiction”. The Housing Authority selected by HUD would have sole discretion on how the program would be administered based on their PHA’s program guidelines and priorities.

#### Option 2 – Subcontract with Another Public Housing Agency to Administer Section 8

Under this option, the City would contract with a neighboring PHA to administer the Ames program in accordance with policies established by the City of Ames.

This alternative was actually tried in 2000, when the City Council approved contracting out of program administration to the Fort Dodge Housing Agency. However, due to extreme differences in program administration and customer service, the City of Ames terminated the contract after two months.

Staff has spoken with two other housing directors in the area (Central Iowa Regional Housing Authority in Des Moines, and Marshalltown Housing Authority). Both stated that they would not be interested in being a subcontractor to the City of Ames. This is due both to differences in administration and to complications of staffing two separate boards.

#### Option 3 – Create a Local, Non-profit Entity to Administer Section 8

Under this option, the City would create a separate legal entity under Chapter 28E of the Code of Iowa between the City of Ames and a new Ames Housing Authority to administer the Section 8 Housing Choice Voucher Program. Similar arrangements of this type have been implemented by Mason City and Des Moines in past years. Under Iowa Code Section 403A.5, this new Housing Authority would be governed by a board of commissioners appointed by the Mayor. The administration and policy making for that agency will be exercised by the commissioners, and not by the City Council.

#### Option 4 – Have the City of Ames Continue to Administer Section 8

A final option is for the City itself to continue to administer the Section 8 Housing Program. This would require the City to use local tax dollars to cover the administrative funding gap so we can hire sufficient staff to operate the program. The magnitude of the annual financial shortfall will make it very challenging to cover each year.

In determining which option to pursue, Council may wish to consider various programmatic advantages, and disadvantages, of continuing to administer this program. A list of these considerations is laid out below:

Advantages of Continuing to Administer the Section 8 Program	Disadvantages of Continuing to Administer the Section 8 Program
Staff's long-term experience with the program brings a strong understanding of HUD regulations and enforcement	Day-to-day administration is overwhelmingly time-consuming regardless of program size; current staffing size is inadequate
City Council would retain control over how the program is administered within our jurisdiction	Program administration demands prevent staff from concentrating on other Council priorities (E.g., CDBG program)
Section 8 administrative funding provides a source of outside revenue to help cover overhead of the City's housing programs	Federal funding stream is unpredictable and inconsistent; significant local subsidy is required long-term
As a City program, coordination and communication with the Ames Police Department is easily accomplished	A lesser degree of communication and cooperation with local law enforcement may occur, since cooperation is dependent upon the new PHA's willingness and other priorities
The quality and level of customer service to local clients and landlords is very good	In past recruitments to staff this program, we have found a lack of experienced program administrators available
Local administration provides the ability to add discretionary policies to reduce fraud and restrict who is eligible locally to receive or retain assistance	An unassured quality and level of customer service could provide lower quality service to local Section 8 clients and landlords
	In the short term, changing to another PHA could cause confusion for existing clients and property owners
	Stricter performance requirements are being mandated by HUD, thereby putting more and more administrative burdens on the City staff
	A substantial subsidization from City funds will be required to maintain the program

Again, it is important to note that the City's relinquishment of Section 8 Housing Program **does not** mean that the assistance would not longer be made available in Ames. Rather,

HUD would decide which Housing Authority would administer the program in our city.

**In summary, staff has brought forward information on the financial condition and status of the Section 8 Program. Direction is requested on how Council would have staff proceed from this point.**

NOTE: On April 13 staff indicated that they would bring Council updated information on the Section 8 Program's financial condition, as well as proposed changes to the Administrative Plan. However, due to the tenuous financial condition of the program, staff has first brought the funding issue to Council. Should Council choose to shift program administration outside of the City of Ames, only minimal changes would be needed in the Administrative Plan during the transition period.