

STAFF REPORT**SECTION 8 SUBSIDIZED HOUSING PROGRAM
-SERVICE LEVEL AND FINANCIAL UPDATE-****11/23/2010**

At its April 27, 2010, meeting, the City Council received a staff report on the financial status of the City's Section 8 Housing Choice Voucher Program. The main subject of the report was the fact that the administrative allowance provided by the U.S. Department of Housing and Urban Development (HUD) is not adequate to fully fund administration of the program. Options provided to Council included identifying a permanent additional funding source for administration of the program, or discontinuing City administration, allowing HUD to assign another public housing administrator to manage the program in Ames. Based on the report, Council directed staff to conduct a further review and report back to Council on the possibility of providing a level of service for the Section 8 program that could be administered within the funding provided by HUD. Council also asked that staff report on comparable programs in Iowa.

Over the past seven months the staff has been researching options for providing Section 8 administration at a level of service that could be funded within the administrative budget allocated by HUD, while at the same time meeting the program compliance requirements set by the contract with HUD. This research included talking with housing authorities with similar-sized Section 8 programs, meeting with area housing authorities within close proximity to Ames about how they administer their Section 8 Programs, and meeting with HUD staff to review our current program administration and discuss ways that the day-to-day program administration could be reduced or modified.

Service Levels:

The conclusions from the service level research are as follows:

- The mandatory requirements, such as processing annual and interim re-certifications, conducting inspections, compliance with mandatory lease-up rates, and submittal of monthly and quarterly reports, cannot be reduced.
- Making changes in program administration, such as closing the waiting list and only accepting applications (for a limited time period) when there is not a sufficient number on the list to fill turn-over slots, is at the discretion of the Housing Authority. Closing the waiting list back in 2009 has made it possible to meet other the mandatory day-to-day program operations when there has been only two temporary part-time staff members, and still stay within the administrative allowance. However, it is not likely that this option is sustainable since we will not meet HUD's mandatory lease-up requirements (95%) and staff cannot remain "temporary" and without benefits on a permanent basis.

- Staff has also reduced service levels by closing the Section 8 Program on Fridays. However, with the Planning and Housing office still open, support staff and/or the Housing Coordinator ended up covering the telephone calls and the counter traffic, resulting in a minimal true reduction in cost.
- Staff has reduced the amount of “extended supportive care and attention” given to customers, which has freed up time, and is also working on administrative processes recommended by HUD, which should also reduce some time.

It has been difficult to equate service reductions to a specific financial savings because we are only reducing procedures/services versus eliminating the procedures/services, and still need to maintain a level of compliance.

Iowa Housing Authorities of similar size were contacted to review their staffing in comparison with the City’s to help gauge resources needed to implement the same HUD requirements. Most of these Housing Authorities (HA’s) are operated by non-city agencies, and in many cases had lower staffing levels. Although similarly sized, administering the program in college towns like Ames requires a greater workload due to our local market conditions (i.e., higher turnover, especially during the July/August time period). Further, the City’s “pay equity” pay plan leads to higher salary levels than are paid in these other HA’s with similar numbers of vouchers that serve smaller communities or regional areas.

Financial:

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 Housing Authority. HUD has allowed Section 8 HA’s to accumulate and maintain an administrative fund balance. However, we expect that the City’s Section 8 administrative fund balance will be exhausted in the upcoming fiscal year and that alternative (local) funding will be required if the City plans to continue administering the program.

Our current adopted budget for FY 2010/11 anticipates expenses to exceed revenues provided by HUD to administer the program by approximately \$151,000. We have made significant reductions to this shortfall by service adjustments and using temporary staff, but have not been able maintain the lease-up rate required by HUD.

Given the trend in funding for administration over the past several years, we expect this funding shortfall to increase each year if 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 is competition for staff and resources for the administration of other programs in the division. This situation puts the City at risk for program non-compliance. City staff estimates that fully funding the administrative costs

to operate the Section 8 program will result in an administrative funding shortfall of approximately \$150,000 for FY 2011/12.

The conclusions from the **financial implementations** research are as follows:

- There will continue to be a shortfall between the amount of funds received from HUD and the cost to hire the adequate number of staff to administer the program in full compliance with the program regulations. Currently the program is **not** in compliance regarding the lease-up percentage requirements. The lease-up percentage requirement is **95%** of the contract allocation of Vouchers (218 out of 229 Vouchers), and we are currently at **65%** lease-up (149 out of 229 Vouchers). This is a major compliance area that is reviewed by HUD.

Since June 2010, the Housing Division has been staffed by an equivalent of 2.25 FTEs, including the Housing Coordinator and one half of a full-time support staff person, augmented by two part-time temporary employees. The Division has attempted to address current funding shortfalls by reducing levels of service in areas that do not conflict with HUD guidelines (e.g., closing the waiting list). However, most of the slack has been picked up by the Housing Coordinator regularly working extended hours.

Overall, the service level and financial analyses both indicate that it is not possible to (1) reduce the service level to administer this program and remain in compliance with HUD requirements or (2) remain within the financial allocation provided by HUD for program administration.

Therefore, as identified in April 2010, the following four possible options exist 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 selected the Housing Agency (HA) of their choosing, they would then contact that HA to determine their interest in administering the program for the Ames jurisdiction.

HUD has stated that they will identify another Housing Authority to administer the program and will retain the allocated vouchers in the “Ames jurisdiction.” The Housing Authority selected by HUD would have sole discretion on how the program would be administered based on their HA’s program guidelines and priorities.

This option will result in the City Council no longer being able to establish more stringent program eligibility guidelines in our community than those required by

HUD (e.g., background checks, and giving local eligibility preference to Ames residents, the elderly and families).

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

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

This alternative was attempted in 2000, when the City Council approved contracting out program administration to another area Public Housing Agency. However, due to problems inherent with subcontracting a grant program, the contract was terminated by mutual agreement after two months.

Staff has spoken with two other housing directors in the area (Central Iowa Regional Housing Authority in Grimes 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.

Under this option, the City of Ames would still be liable for any financial shortfalls generated by this entity. In addition, there is no indication that this entity would be able to operate the Section 8 program at a lower cost than the City.

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.

Given the relatively small number of vouchers for which we are responsible, it is no longer possible for the City to administer this program as efficiently as larger housing authorities.

Long-term funding to locally subsidize this program would need to come from increased property taxes, from the existing pool of human services funding, from an expanded pool of human services funding (which would reduce the availability of local option sales tax funds for other “community betterment” projects), or, in the short-term, from the existing balance in the Housing Assistance Fund.

Again, it is important to note that the City’s relinquishment of the Section 8 Housing Program does not mean that the assistance would no longer be made available in Ames. Rather, HUD would decide which Housing Authority would assume administration of the program in our city.

While the above discussion has focused solely on the Section 8 Housing Program, it does not take into account the need for administration of the Community Development Block Grant (CDBG) and other programs administered by the Housing Division. Historically, operating all of these programs has actually required approximately 184 hours of staff time per week, which equates to 4.6 full-time employees (FTEs). Even if Section 8 program administration is relinquished to HUD, staffing will still be needed to administer the City’s annual CDBG allocation, as well as affordable housing initiatives, flood recovery initiatives, and other priorities identified over time by the City Council.

Staff Comments:

This is a very difficult recommendation for the staff to offer. On the one hand, we strongly support maintaining a viable leased housing program in the City of Ames and believe that City administration of this program will better serve our community. However, on the other hand, it has become apparent that housing authorities with small numbers of vouchers, like ours, cannot continue operate as efficiently as those with a greater number of vouchers over which administrative costs can be spread.

Therefore, staff reluctantly supports Option #1, since this program can still be provided to those who need these services without local subsidy. This approach seems to be consistent with staff’s findings that, of the eleven “city” administered housing authorities in Iowa, only one currently uses local tax funding to subsidize the administration of their Section 8 Housing Program. It also recognizes that the City’s “pay equity” pay scale is what helps create the need to supplement administrative funding received from HUD.

This option does come with a major drawback in that the City will lose control over the eligibility requirements for program participants and other discretionary policies.

Because of the financial challenge that confronts us in regard to this program, Council direction is sought as we begin development of the FY 2011/12 budget.