

HUD Legislative Proposal

FLEXIBLE VOUCHER PROGRAM

Why Are Changes Necessary?

- Too many subprograms/voucher types.
- Too much Washington interference with PHAs, residents and landlords.
- Evolved into complex program with excessive regulatory and statutory restrictions.
- One size fits all design isn't effective.

Why Are Changes Necessary?

(cont'd)

- Lack of local flexibility to address local priorities and local market conditions.
- Targeting and rent policies establish wrong incentives (e.g., a resident in California quit her job after her rent went up).
- Time to get back to basics and return decision making to local PHAs.

Basic Program Design

- Return to the dollar-based voucher approach – don't cap number of families.
- Simplify statutory and regulatory design.
- Give much more flexibility to PHAs.
- Continues the program as tenant-based rental
- Continues homeownership option
- Continues project-based option in a more streamlined fashion, e.g. PHA does not have to get HUD approval for location (census track).

Program Administration

- Program will be administered by the current administrators/PHAs.
- HUD will focus on measuring a few, basic performance measures -- utilization of funds, number of families served, financial management -- not processes.
- In cases where the PHA fails to or is no longer willing to administer the program, HUD will select another entity to administer the program.

PHA Administrative Fees

- HUD is re-examining the most appropriate way to allocate and distribute administrative fees.
- HUD is open to ideas from the industry.

Family Eligibility

- Families must have gross incomes below 80% of median income when admitted.
- Mix of low income served is up to you – no proposed targeting.

Selection Of Families

- PHAs may establish local preferences for selecting families from the waiting list.
- PHAs may also establish preferences for persons with a specific disability for project-based assistance.

Portability

- Portability is continued but details are left to rulemaking with input from industry.

Family Rent Contribution

- PHAs will determine all tenant rent policies (see MTW). Some possible PHA options:
 - Rents as a percent of income (as defined by PHA).
 - Flat rents.
 - Tiered rents based on income ranges.
 - Percent of income on a sliding scale.
- PHAs will be required to establish a minimum rent.

Family Rent Contribution (cont'd)

- Federal requirements eliminated:
 - No more RIMS (if FVP is enacted)
 - No Federal maximum rents

Amount Of Subsidy

- PHAs will be able to and encouraged to set subsidy according to true, targeted market comps.
- This will be more accurate and more responsive than HUD established FMRs.
- Like the original voucher program, PHA may approve shallower or deeper subsidies than currently exist.
- HUD established FMRs will be for guidance only.

Housing Quality

- PHA has option to use State or local housing quality standards and code requirements or HUD HQS.
- Initial inspection must be conducted on each new unit within 60 days of initial subsidy payment. If unit fails inspection, family will be allowed to remain (and no HAP payments made) until the owner makes the necessary repairs

Housing Quality (cont'd)

- Annual re-inspections will be required for 25% of the units in the program.
- PHAs may not assist units that do not meet the established housing quality standards.

Rent Reasonableness

- Rents must be reasonable based on local rents charged for comparable housing of a modest nature in the local market.
- Rents must be determined at initial lease-up and annually thereafter.

Funding

- FY 2005 funding will be proportionate to funding received by PHA in FY 2004.
- Subsequent funding will be adjusted by an inflation factor.

Funding (cont'd)

- The FVP formula will be published for comment and will consider such factors as housing need, the number of families currently assisted, poverty rates, housing costs, and PHA performance.
- Baselines could be adjusted every 3-5 years based on formula.

“Boutique” Programs

- No Federal set-aside for boutique programs.

Homeownership

- PHAs may opt to provide monthly homeownership voucher subsidies so the family may purchase a home.
- PHAs may also opt to give the family a one-time \$10,000 grant for down payment assistance and closing costs instead of the monthly subsidy.
- Family must be a first time homebuyer, participate in a homeownership counseling program, and meet any other PHA established requirements.

Project-Based Vouchers

- PHA may continue to use up to 20% of its voucher funding for project-based assistance.
- Subject to the same requirements for tenant-based vouchers (e.g., family eligibility, rent reasonableness, housing quality standards).

When Will The Program Be Implemented?

- Congress must pass law before program can be implemented.
- HUD plans to implement the Flexible Voucher Program very shortly after enactment.
- HUD's legislative proposal was sent to Congress with the President's budget on February 2, 2004.
- The program will be implemented by Federal Register Notice followed by a formal rulemaking including a proposed and final rule.

Response to Congress

- HUD is responding to Congress' concern about cost.
- The FY 2004 Joint Explanatory Statement of the Committee of Conference states:
“The conferees are concerned about the spiraling increase in the cost of providing assistance under the voucher program.

Response to Congress (cont'd)

- The conferees are aware that the national average cost per voucher has increased at a rate of more than double the average increase in the private rental market in each of the last two years, including a 10 percent increase in 2002 and an additional estimated 9 percent increase in 2003.

Response to Congress (cont'd)

- At the same time, the rental housing market has softened...Because of the alarming increases to the cost of rents under the section 8 tenant-based program the conferees direct HUD to report to the House and Senate Committees on Appropriations by July 31, 2004, on the underlying reasons for these annual increases in the average costs of section 8 rents.

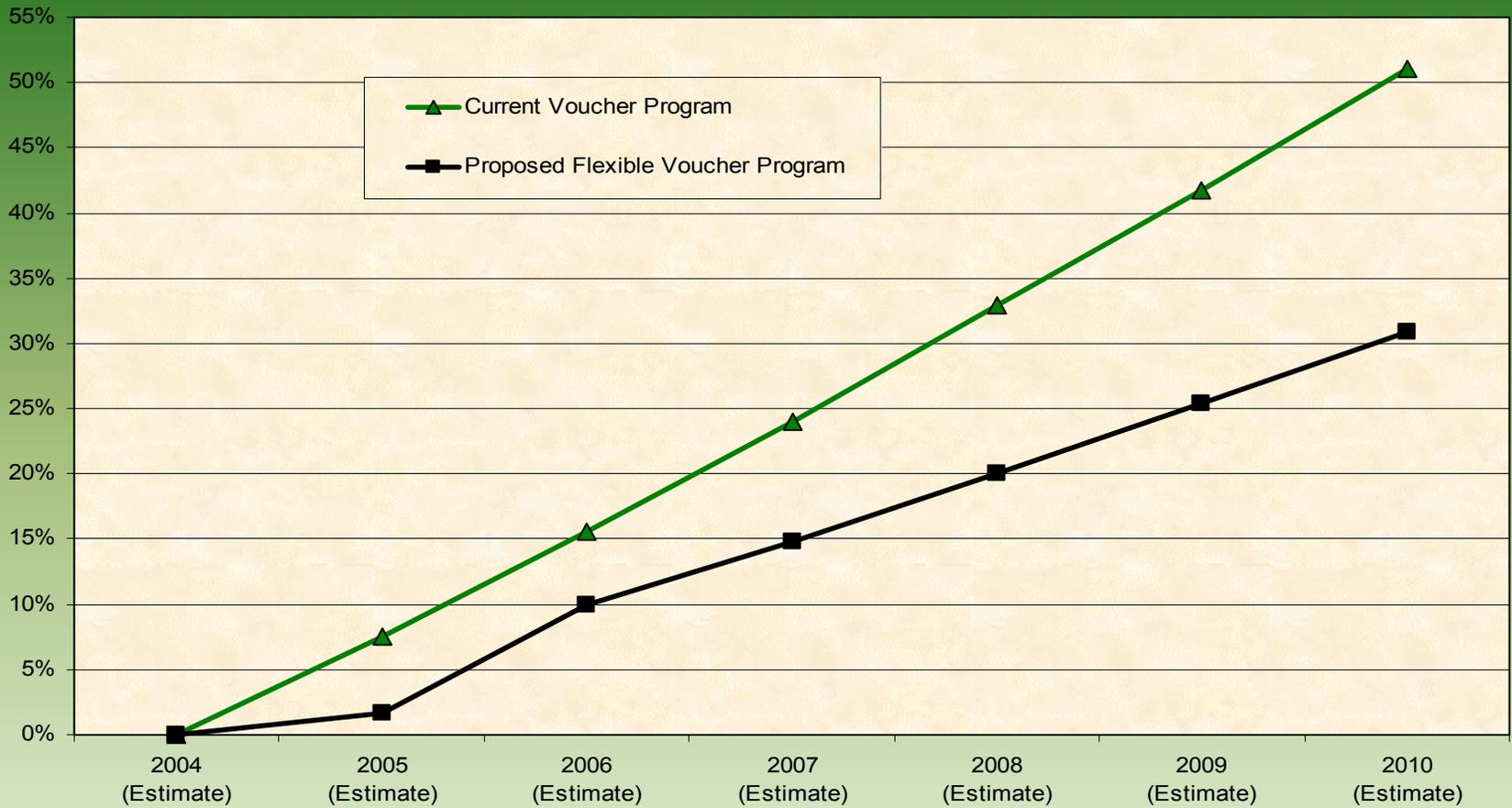
Response to Congress (cont'd)

- While the conferees support efforts by PHAs to increase their utilization of vouchers to serve additional families, PHAs must manage their programs in a prudent manner to maximize the number of families served.”

Cost Concerns

- Program costs are getting out of hand and are threatening the existence of the program as well as other HUD programs.
- In last 2 years, national average cost per voucher has increased at an alarming rate (23%).

Housing Certificate Fund (Section 8) Estimated Cumulative Increases in Budget Authority FY 2004-2010



Cost Concerns (cont'd)

- 80% of metro areas have seen rent decreases.
- Vacancy rates are highest since 1956 (US Census).
- Total funding for the Housing Certificate Fund is reduced in FY 2005, but only as compared to the current program costs that are at an all-time high.
- But the FVP will be different, not the same.

Cost Containment

- The flexible voucher program will reduce the cost of vouchers. The following are examples of cost reductions in the program:
 - Accurate rent setting (e.g. if current average payment standard of 104% of FMR is lowered to 95%, we could save \$500-\$800 million)
 - Reduction/use of the one-month ACC reserve
 - Reduce subsidy calculation errors
 - Broader income mixing (example)

Cost Containment (cont'd)

- Dollar-based funding program as was the original voucher design.
- PHAs were (and will be under FVP) rewarded for cost efficiency with ability to serve more families (maximized leasing).
- Will provide a steady, predictable funding level with annual inflation increases.

QUESTIONS AND ANSWERS