

May 14, 2004

MEMORANUDM TO: Scott Benson, Chair
Inter-Governmental Relations Committee

FROM: Cora McCorvey, Executive Director
Minneapolis Public Housing Authority

RE: Section 8 Funding Crisis

The Minneapolis Public Housing Authority (MPHA) requests that the Inter-Governmental Relations (IRA) Committee urge the Department of Housing and Urban Development (HUD) to provide sufficient funding to MPHA and all public housing authorities for the Section 8 Housing Choice Voucher Program. On April 22, 2004, HUD issued a notice that threatens to displace Section 8 families, raise rents for vouchers holders and lower subsidies to needy seniors, persons with disabilities, families with children and recent immigrants who have settled in Minneapolis.

To date, these actions by HUD threaten the **4838** Section 8 families served by MPHA. The information MPHA has received from HUD to base a calculation of our future funding is confusing, inconsistent and incomplete. However, MPHA has used what information we have received to estimate that HUD's renewal calculations for Fiscal Year 2004 may likely cause a \$600,000 deficit at the end of our Fiscal Year 2004, September 30, 2004.

In past years, renewal funding for the Section 8 program has been based on the actual costs incurred by MPHA to pay rents and administer the program. HUD's proposal will roll the basis for the renewal funding back to whatever the costs were in August, 2003 with a small inflation factor of 1.043 applied. For MPHA, this will mean that any increases in rent or additional families assisted between August, 2003 and the present that have caused our costs to rise above that inflation factor will not be funded.

MPHA's current average Housing Assistance Payments (HAP) costs have exceeded HAPs funding by \$35 per unit/month through the first half of our fiscal year, and while we have submitted a budget revision to HUD to be funded for this increase, we have not yet heard back from HUD about whether or not the revision will be approved. The budget revision also includes a \$1.34 million request for additional funding due to increased voucher utilization. Although there are some doubts as to whether HUD will honor our full request, there are provisions in the HUD notice that allow for additional funds due to increased utilization. If it is not, the shortfall described above will increase.

Many members of Congress, Governor Pawlenty, advocates and others have met with or written HUD officials to urge that HUD fully fund these critical programs. If HUD does not reverse its current position, the MPHA program and the families we serve are in serious jeopardy. In the interim, MPHA has put in place measures to protect the

program through cost containment measures that seek to minimize the impact on Section 8 voucher holders. The interim measures that MPHA has adopted are as follows:

1. Request owners participating in the Housing Choice Voucher Program to reduce their rents and not pass that cost on to their tenants.
2. Effective July 1, 2004, halt all Owner's Contract Rent Increase Requests this year and until we assess the full impact of the new funding renewal process.
3. Decrease family unit size/voucher size at annual re-exam. Re-determine family composition at the annual re-examination and decrease voucher size where appropriate. This will not force families to move but will cause families to take on greater rent shares and will decrease the HAP amounts which, in turn, will decrease MPHA costs.
4. Process interim rent adjustments when participant income increases. (Currently we make changes at the next re-exam.) This will result in an increase in tenant rent share and a decrease in HAP subsidy.
5. Freeze new lease approvals for participants who want to move (except for hardship cases).
6. Do not approve increases in family unit size/voucher size except for changes in family composition that document the birth, adoption or court awarded custody of a child.
7. Market our public housing units to elderly, and non-elderly disabled voucher holders and to applicants on the voucher waitlist.
8. Delay issuing new vouchers to project-based residents who want to move out of the project-based unit until adequate funding is available to support all current vouchers and project-based commitments.
9. Reduce the voucher payment standards as permitted by HUD regulations. This measure will cause participants to pay a larger share of the rent and will reduce MPHA's HAP costs.
10. Hold further issuance of Hollman "recycled" vouchers.
11. Restrict voucher portability (mobility to other jurisdictions) which will reduce MPHA administrative costs and stop the fluctuation of HAP.
12. Delay approval of anymore new project-based units.
13. Place an immediate hiring freeze on recently approved new Section 8 positions.

HUD Secretary Alphonso Jackson has stated more than once that if some housing authorities are experiencing shortfalls in funding it is because they have over-leased (are subsidizing more families than they have the authority to assist) or have spent their

reserves. This is definitely not the case in Minneapolis. We are facing a very real funding crisis caused by HUD's decision not to adequately fund the program even though they have the dollars to do so.

To help resolve this issue, MPHA requests that the IGR Committee urge HUD to do the following:

1. Fully fund the Housing Choice Voucher program with the sufficient appropriations as Congress intended.
2. Restore the program reserves to the one month level as previously guaranteed.
3. Use the most recent reliable cost data available as a basis for calculating the renewal funding amount.
4. Use an inflation factor other than the published annual adjustment factor and/or adjust the factor based on data showing or reflecting actual rent increases. This factor should be used to determine rent increases to owners not HAP renewal funding. If done this way, the housing authorities would not have to absorb the cost increases caused by lower participant incomes.

HUD has repeatedly stated that they do not intend to back down from its strategy. HUD believes that the costs of the Section 8 program are increasing at a high rate each year and that those costs must be controlled by the individual housing authorities. MPHA understands this and would gladly work with HUD and other partners to find a way to control those costs that would not threaten those least able to recover from the loss of their housing.

HUD's drastic change on funding with no notice or time to prepare or plan is counter-productive and grossly unfair to the program participants. The potential loss of subsidies for low-income families and individuals could have far reaching impact on the City of Minneapolis. Aside from the obvious, decreasing affordable housing and increasing homelessness, it could affect the availability of the workforce for lower wage jobs, or it could impact education with more children living in substandard housing while trying to remain in school. Additionally, these drastic actions would have a seriously negative effect on our partner landlords who participate in the program.

Should you desire additional information regarding this issue or if you have additional questions, please contact Janet Salisbury, Director of Property Management at 612-342-1403.