



MEMORANDUM

Date: July 30, 2009

To: Northwest Oregon Housing Authority (NOHA)

From: Jill J. Riddle, Director of Rent Assistance; Housing Authority of Portland (HAP)

Subject: Recommendations for system improvements within NOHA's Section 8 Housing Choice Voucher program

Executive Summary

This is an informal memo being provided to NOHA at the request of their Executive Director Carol Snell. Ms. Snell requested assistance with the analysis of their Section 8 voucher program. NOHA is substantially over leased and over spent which is resulting in up to 289 participants being removed from the voucher program between June and September 2009. This year's funding shortfall seems to be the result of a complicated HUD funding formula - the late announcement of Annual Budget Authority amounts by HUD (May 2009) which negatively impacted NOHA due to prior years of under-leasing and under-spending. NOHA had inadequate budget authority in 2009 to fully lease all of their "authorized" voucher units unless they had undertaken substantial cost reduction efforts. Unfortunately, the agency's over-leasing of vouchers substantially worsened an already bad situation.

On Thursday July 23 Jill Riddle, Director of Rent Assistance programs at the Housing Authority of Portland and Harold Nussbaum, Rent Assistance Program Analyst met with the NOHA staff at their office for approximately six hours. Staff participating in this meeting included: Carol Snell; Walter Beck in finance; John Johnson, the Section 8 Supervisor; and we were joined by Teresa Simms who serves as Ms. Snell's Administrative Assistant. The meeting was focused on an agenda that had been previously provided to NOHA and included the following:

1. Review of the past 24-36 months of leasing and expense levels
 - a. Leasing levels
 - b. Future leasing projections
 - c. Projection of turn over rate
 - d. Projection of successful lease up
 - e. History of program turn over
 - f. Average housing assistance payment (trending up or down)
2. Review of funding capacity
 - a. Review of HUD funding as compared with leasing projections and increasing and/or decreasing costs

- b. Review of measurement tools previously used to calculate leasing and expense levels
- c. Sharing of tools used by the Housing Authority of Portland (HAP) to calculate and project future leasing and funding levels
- d. Discussion and projection for future leasing capacity
3. Discussion and financial impacts of various business tools and techniques that could possibly be utilized to reduce current termination efforts.
4. Projection of when the next waiting list pull could occur and what future funding levels might look like.

The NOHA staff were positive during the course of the visit; they were cooperative and willing to provide data and all pertinent information that resulted in this memo. Additionally, they seemed genuinely willing to accept and implement the ideas and strategies being proposed. The visit was a positive experience for staff from both agencies.

Training Tools Provided

In addition to consultation time, the staff was provided with packets containing analysis tools in the following areas:

- Lease up and monitoring
- Monitoring income indicators
- Payment Standard expense analysis
- Voucher unit and funding utilization

Board Questions

During the visit Ms. Snell provided us with a list of questions her Board of Commissioners had requested that we answer. All of the Board questions directly relate to the agenda above, and therefore they will be answered in an appendix to this memo.

Essentially, our recommendations encourage improvement in the following areas:

1. Tracking and utilization tools need to be developed and utilized within the agency.
2. Communication must be developed and improved upon between operations and the finance department.
3. Increased program oversight and monitoring by the Executive Director is needed.
4. We strongly encourage the implementation of cost cutting measures prior to January 1, 2010.

If these recommendations are followed, we believe that NOHA can fully utilize all authorized voucher units on January 1, 2010.

Specific Issues Identified

Currently NOHA has over leased their Section 8 voucher program to the point where they are being forced to terminate up to 289 program participants. They also issued vouchers that were pulled back prior to utilization for an additional 40 voucher recipients in March 2009. The problems which resulted in families losing their assistance include the following:

1. Failure to make leasing projections based upon vouchers issued and households being pulled from the waiting list.
 - a. The staff needs to develop tools that enable them to track lease up rates and should be constantly monitoring these levels prior to the issuance of additional vouchers.
 - b. Staff must realize that once a voucher is issued it generally takes 90 – 120 days to see the program size increases and project accordingly.
 - c. Staff must start to track the market trends (vacancy rates and rental costs) and their impact on voucher costs.
2. Failure to be aware of the number of available vouchers.
 - a. Internal staff in the accounting department and the Section 8 program use different report mechanisms to measure leased vouchers. Unfortunately, these different reports show very different results. Staff should agree on one set of reporting mechanisms.
 - b. For some time the program staff was failing to count vouchers that had ported out of the jurisdiction but were being billed back and must still be included in the voucher count.
 - c. Program staff was also failing to count vouchers that are in the moving process. Moving is an ongoing occurrence and failing to take into account the utilization of vouchers by movers results in an underestimate of available voucher units.
3. Poor communication between departments.
 - a. Lack of sharing information and coming to an agreement on what information is and is not correct. Different departments have not been able to agree on a method for accurately counting leased vouchers.
 - b. The accounting department rather than the program specialists are monitoring leasing and spending levels with little to no Section 8 program knowledge.
 - c. Accounting is focused solely on cash and NRA (Net Restricted Assets) levels as opposed to program operations as they relate to expenses and HUD funding levels.
4. Failure to track and understand the amount of funding spent and committed to be spent by the issuance of vouchers at all times.
 - a. Tracking tools must be developed to enable staff to account for the financial liability of every voucher issued (at the time it is issued) rather than taking a wait and see attitude.
5. Increasing the payment standard from 100% of FMR to 110% without performing affordability projections. These projections must be performed whenever such a change is contemplated.
6. Issuing vouchers well in excess of availability.
 - a. The staff should closely monitor the turn over rate and the leasing success rate and project the households pulled from the waiting list directly to that number.

- b. In calendar year 2008 there were 1,052 names pulled from the waiting list to fill 60 openings due to regular program attrition and 59 available vouchers, for a total of 119 available. The organization estimates they have a 20% success rate from the waiting list to a voucher contract. Based upon this estimate these pulls would have resulted in 210 voucher contracts with only 119 available voucher units. The waiting list pulls and excessive leasing efforts continued into calendar year 2009.

Recommendations, including an estimate of ongoing funding and leasing capacity

- NOHA's 2009 Annual Budget Authority for the Section 8 program provided by HUD is \$5,338,478
- Authorized voucher units are 1,077 monthly or 12,924 per year
- We recommend that NOHA takes measures to reduce voucher costs such as the reduction of generous bedroom allowances. (Jill, for the non-technical reader, you might want to explain this one a bit more. Also, are you suggesting this for folks in place? Would this raise their portion of the rent or cause them to have to move to avoid that?) This would enable the agency to serve additional households up to their authorized unit count, enabling them to re-instate households. We recommend that this step and other cost cutting measures (are there any other cost cutting measures you are recommending?) are taken prior to January 1, 2010.
- **The targets we recommend to NOHA for maximized leasing and the reinstatement of 220 households by 01-01-2010 are as follows:**
 - Leasing target of 1,104 vouchers under contract effective 01-01-2010. This allows for 220 households to be re-instated to the program effective 01-01-10.
 - Reduce costs to result in an average Housing Assistance Payment (HAP) target of \$413 by 01-01-2010. This equates to an estimated reduction of HAP by an additional \$8 over and above what we project the payment standard reduction (which has already taken place) will result in. Housing Assistance Payment averages prior to the payment standard reduction have averaged \$477 over the past three months.
 - We **do not** anticipate that NOHA will be able to pull any households from the waiting list for the entire 2010 calendar year.
 - The leasing levels will need to reduce through natural attrition at the rate of five (5) per month and the HAP costs will need to be maintained at an average of \$413 per unit to maintain consistent leasing and expense levels throughout 2010.
 - If the recommendations listed above are followed, we anticipate year end leasing of 99.95% of all available voucher units leased.
 - If the recommendations listed above are followed, we anticipate NOHA will spend 99.94% of HUD provided Annual Budget Authority with no need to access NRA.

- This targeted leasing and expense level will result in maximum funding and utilization levels and will also equate to maximized HUD funding in the following calendar year.
- With an average voucher turn over rate of five to six per month and a projection that 20% of those pulled from the waiting list will be successful leasing a unit there should never be more than 30 households pulled from the waiting list per month to maintain full leasing capacity in calendar years beyond 2010.

All recommendations provided above are being made on the assumption that 2010 Annual Budget Authority will be equal to 2009 levels.

All recommendations contained within this memo are based on a single visit to NOHA, and should be considered within that context, as well as within the context of the local jurisdiction's needs.

The Housing Authority of Portland staff who conducted this visit and prepared this memo did not evaluate, and are not equipped to evaluate, specific staff roles, but where oversight and direction appeared to be necessary, we have so indicated.

This memo will be distributed in its final formal to the following interested parties via the Housing Authority of Portland:

Nick Fish, Portland City Commissioner
Betsy Johnson, State of Oregon Senator, District 16
Fritz Graham, Field Representative for Ron Wyden, U.S. Senator Oregon
Will White, Representative for Jeff Merkley, U.S. Senator Oregon
Joy McCray, U.S. Department of Housing and Urban Development, Portland Field Office
Oregon Housing Authorities c/o Phil Donovan
Steve Rudman, Executive Director, Housing Authority of Portland
Katie Such, Deputy Executive Director, Housing Authority of Portland

Appendix A

Board of Commissioner Questions

What is Front Loading? Advantages / Disadvantages:

Front loading is requesting more than 1/12 of the annual budget allocation early in the year to help with cash flow, particularly when costs and/or leasing levels are high at the beginning of the year. This helps the Housing Authority manage its cash. The disadvantage is that every dollar taken early in the year is subtracted from HUD's payments during the second half of the year, so it can be problematic if the Housing Authority does not have adequate cash for the second half of the year, and if the projections for leasing and costs are not accurate.

How does a PHA estimate the funding it will receive from HUD for any given calendar year?

Under normal circumstances the number of allowable unit months is constant for each Housing Authority from year to year. The PHA knows the total HAP dollars it is eligible for during the current year and the total allowable unit months. For projecting the next year, the PHA is safest to assume zero inflation and the same proration as the current year (if it's less than 100%), which would yield the same HAP dollars as the current year. This excludes any consideration of NRA (unspent HAP funds from prior years) which HUD may deduct from the next year's award. In good years, the AAF (inflation factors) may give a 2-4% increase in total dollars from year to year, but this could be offset by proration as determined by HUD based on total national need for funds.

Review how NOHA is tracking its vouchers. Is current tracking system working? If now, what are improvements that can be made?

This question is answered in depth in the body of this memo.

Explain / define usable and unusable Net Restricted Asset funds, (NRA)

(The following definition was taken directly from HUD web cast materials titled Housing Choice Voucher Program FY 2008 Appropriation – Implementation)

- NRA balance for each PHA consists of HAP Budget Authority provided for periods since 01-01-2005 that exceeds eligible HAP expenses incurred for each calendar year.
- HUD disburses all Budget Authority and PHAs hold this excess balance, rather than HUD holding it in a program reserve.
- NRA may be used in subsequent years to support HAP costs for authorized voucher units that exceed HAP Budget Authority provided that year.
- NRA balance consists of two amounts:
 - Usable = portion that would be required to support the use of all unused baseline vouchers
 - Unusable = portion that would not be required, after providing for all authorized voucher units.

When will NOHA be able to put participants back onto the Section 8 program? Is it possible to determine at this time?

Please see the memo under recommendations where we go into great detail on our recommendations for placing participants back onto the program.

Is there a better way to project the number of unit months available and available HAP than what NOHA is currently using?

Yes, unfortunately the accounting staff has simply been using current real program costs to predict the future rather than making projections based upon factors such as market trends and the number of vouchers issued and their average lease up time. We spent a considerable amount of time covering these concepts with NOHA staff and provided them with multiple tracking tools to achieve the ability to make accurate projections of leasing and expense levels. As these projections are made, the program staff needs to be heavily involved and make program adjustments as needed for maximum voucher utilization, closely monitoring and adjusting for program costs.