HOUSING AUTHORITY BOARD AGENDA: 03/08/16
ITEM: 2

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: SAN JOSE HOUSING AUTHORITY BOARD OF COMMISSIONERS

FROM: Jacky Morales-Ferrand

SUBJECT: SEE BELOW

DATE: February 24, 2016

Approved D. D. Sykes Date 2/24/16

SUBJECT: SUPPORT FOR THE 2017 MOVING TO WORK ANNUAL PLAN

RECOMMENDATION

Authorize the City Housing Authority's Executive Director to submit a letter to the Housing Authority of the County of Santa Clara (HACSC or Agency) to support the 2017 Moving to Work (MTW) Annual Plan.

OUTCOME

If the U.S. Department of Housing and Urban Development (HUD) approves the HACSC's 2017 MTW Plan, and the companion City Housing Authority's 2017 MTW Plan, the HACSC will be positioned to serve a greater number of low-income residents.

BACKGROUND

Among other activities, the HACSC administers and manages public housing and approximately 17,000 Housing Choice Vouchers (Section 8) on behalf of the Department of Housing and Urban Development (HUD). Sixty percent (60%) of these vouchers provide rental assistance programs for lower-income families, seniors, and persons with disabilities for the Housing Authority of the County of Santa Clara.

The HACSC also administers and manages the public housing and rental voucher program programs for the City Housing Authority ("City Program") pursuant to an assignment agreement ("Agreement") with the HACSC. Forty percent (40%) of the vouchers provide rental assistance to lower-income families, seniors, and persons with disabilities for the City Program.

The HACSC no longer administers any public housing projects. In recent years, all of the public housing projects located in San José have been refinanced with tax credits, and funded with rental vouchers; these projects are now owned by private entities whose nonprofit partners are controlled by the HACSC.

Included in the Agreement between the City Housing Authority and the HACSC is a requirement that the HACSC consult with a representative of the City Housing Authority and obtain approval of any significant policy decisions regarding administration of the City Program. In response to requests from the City asking for greater involvement in policy decisions, the HACSC provides the City with a greater level of detail on policy items and actively seeks the City's input on various initiatives.

The City and the HACSC continue to meet two times per month to facilitate on-going communication. During the past year, the meetings have focused on providing supporting housing for the homeless. Housing Department staff also participates in monthly the HACSC Board meetings as non-voting members.

Moving to Work (MTW) Annual Plan FY 2017

Established by Congress in 1996, MTW is a federal demonstration program that links broad federal goals with locally-designed initiatives. The MTW Program encourages selected housing authorities to propose and, upon HUD approval, implement innovative changes to the way affordable housing programs are administered in order to meet at least one of the following three broad federal goals:

- To decrease costs and increase cost effectiveness in housing program operations;
- To promote participants' economic self-sufficiency; and
- To expand participants' housing choices.

The MTW Annual Plan is a major policy document which includes numerous policies and guidelines impacting the use, administration management, and oversight of the HACSC and City Housing Authority rental voucher programs. Each year, the HACSC releases the MTW Plan for the HACSC and the City Housing Authority describing new policies that may be implemented as part of its MTW Program. Once HUD approves the proposed policies, the HACSC is able to implement those policies through programs that meet the housing needs of the local community.

<u>ANALYSIS</u>

The HACSC is proposing four new activities in the 2017 MTW Plan:

1. Activity 1 - Modification to Local Payment Standards;
2. Activity 2 - Subsidy Standard Change – Phase in;
3. Activity 3 - Special Needs Population Direct Referral Program; and
4. Activity 4 - Landlord Initiatives.

Activity 1. Modification to Local Payment Standards

HUD regulations require that payment standards are set between 90 percent and 110 percent of HUD-issued Fair Market Rents (FMRs). Any payment standard request that is above 110 percent requires HUD approval.

With this activity, HACSC is requesting that HUD waive the regulation that limits payment standards to be set at 110 percent of the FMR and give its Board of Commissioners the authority to approve a payment standard above 110 percent without prior HUD approval.

This activity will also allow HACSC to conduct its own analysis and establish payment standard amounts that better reflect market rents in Santa Clara County, while ensuring that the Agency maintains an approximate 90 percent funding utilization for rental assistance payments. This funding utilization level provides a much needed buffer for the normal fluctuations in Housing Assistance Payment (HAP) expenditures, as well as for the fluctuations in annual appropriations that fund this important Section 8 program.

Santa Clara County is a large geographic area with a changing rental market driven by the dynamic economy of Silicon Valley. A boom in the local economy has led to record-breaking high rents. In addition, the elimination of redevelopment agencies (and tax increment funds) reduced San José and other cities' ability to provide sufficient new rental housing in-line with the number of jobs created.

The County's apartment vacancy rates in the 3rd quarter of 2015 hovered at around 97 percent[1] for standard, non-luxury apartments. County-wide, open market rents increased by 11 percent in the last year, and by over 46 percent in the last four years[2]. However, HUD-issued FMRs for Santa Clara County have only increased by 4 percent during the same four-year period. As rental market conditions tighten, it is common for payment standards, capped at 110 percent of the FMRs, to fall short of what is actually needed to rent a standard unit in Santa Clara County.

In an effort to increase the Agency's success rate, the HACSC raised its payment standards to 110 percent of the 2015 HUD FMRs in September 2015. In spite of this, HACSC found the payment standard amount for a one-bedroom apartment to significantly less than the average one- bedroom apartment market rent for apartments in the County. For example, the FMR for a one-bedroom apartment is $1,348, however, RealFacts recently reported the average one-bedroom rent being charged in Santa Clara County is $2,338.

From September 15, 2015 to January 5, 2016, the housing success rate for voucher holders increased from 31% to 48%. This increase can likely be attributed to the implementation of the higher payment standard (110% of the FMR). However, the overall success rate is still too low because for every two persons with a voucher, only one is able to find housing. There are over 1,000 households in the County who have vouchers who are unable to find a suitable apartment.

---

[1] RealFacts, an online rental market database, surveys all apartment complexes of 50 units or more to obtain its data.
[2] Real Facts rental market data.

The flexibility to set local payment standards will allow the HACSC to respond to a tightening rental market and rising rents. The HACSC hopes that the proposed activity will help to ensure that payment standards are sufficient to improve the housing success rate for families on Section 8 without going through a lengthy HUD approval process.

Activity 2. Subsidy Standard Change – Phase in;

HACSC is planning to revise its subsidy standard to two persons per bedroom. Currently, HACSC subsidy standard allows one bedroom for the Head of Household and their spouse or partner and one additional bedroom for every two remaining household members.

HACSC proposes that if a household's voucher size changes due to a change in the subsidy standard policy, the new voucher size would not take effect for households in a unit under a HAP contract until (1) the family moves; or (2) the rental market vacancy rate remains five percent (5%) or higher for at least six months, whichever occurs first.

A reduction in subsidy standards to two persons per bedroom will directly support *Activity 1* by establishing a Local Payment Standard and offsetting the additional cost associated with raising the payment standard above 110 percent of the FMR.

Furthermore, *Activity 2* will allow for the subsidy size reduction without requiring families to move to a smaller unit in a difficult rental market. If approved, HACSC would establish a policy that would set detailed administrative parameters for implementing this activity, including providing a minimum notice period to the family before applying the reduced voucher size in the rent calculation.

Under HUD regulations, a decreased payment standard is applied at the second annual reexamination following the change. However, the Agency's MTW Annual Plan changed the reexamination cycle to every two or three years depending on the family's type of income. Because of this two- or three-year reexamination cycle, the Agency adopted an MTW activity that provides for an immediate change to the voucher size and its corresponding payment standard when changes in family composition or subsidy standard occur.

If the application of the new payment results in an increase in the tenant's rent portion, the reexamination effective date will be the first of the month following a 30-day notice to the tenant and owner. Proposed *Activity 2* will extend the notice period for when applying a new voucher size and payment standard due to a decrease in HACSC's subsidy standard during a difficult rental market beyond the 30-day notice allowed under the MTW activity approved in 2009. The original 30-day timeline will continue to apply for voucher size changes that occur due to a change in the family's composition.

The median rent for a unit in San José is $3,376 and the vacancy rate is very low. Voucher holders, with an average annual income of $16,000 in a county with an annual median income of over $100,000, cannot compete with market renters. The HACSC has no desire to force a

Section 8 family impacted by a reduced subsidy size to search for a new, less expensive home in the current rental market. A review of vacancy rates in Santa Clara County's rental market over the last ten years shows that the vacancy rate has risen to five percent or above only once—in 2009, when Santa Clara County was feeling the effects of the great recession of 2008-2009. This activity will allow Section 8 families under an active HAP contract to retain their current subsidy level when moving are impractical due to market conditions.

Activity 3. Special Needs Population Direct Referral Program

In January 2015, the HACSC initiated a public process to develop a Housing Resource and Voucher Allocation Policy (HRVAP). The HACSC engaged with stakeholders within Santa Clara County and asked them to contribute their input on a range of program topics to inform HACSC's development of policies that guide the HACSC's use of its MTW resources, and align with the objectives of its strategic plan.

One of the major topics discussed during these meetings was whether the HACSC should allocate a portion of its turnover vouchers to Special Needs Populations (SNPs) that may not be best served through the traditional waiting list process. Some examples of SNPs include, but are not limited to individuals with disabilities who are at risk of institutionalization, and transition aged youth (youth transitioning out of foster care who are at risk of becoming homeless).

With the Agency's MTW authority, the HACSC and designated community partners will target vouchers to SNPs as follows:

- HACSC will assign a certain number of annual turnover vouchers to designated SNPs, determine program eligibility, and provide rental assistance;
- Community partners will provide referrals of clients to HACSC, and case management to the designated SNPs.

Stakeholder groups engaged through the HRVAP outreach process supported HACSC's creation of a policy that focused on housing some of Santa Clara County's most vulnerable people. Further, stakeholders also expressed interest in having representative groups from each special needs population participate in the development of the aforementioned policy.

Activity 4. Landlord Initiatives

The rental housing market in Santa Clara County ranks as the most expensive in the nation with record low vacancy rates. In fact, many landlords refuse to even accept or consider a Section 8 family. The HACSC has implemented a renewed focus on property owner recruitment and retention in order to increase and preserve the number of affordable housing options for its voucher holders throughout the County.

In an effort to retain its current Section 8 property owners and attract new ones, the HACSC is proposing to implement a landlord initiative activity that will provide Housing Choice Voucher (Section 8) property owners with vacancy payments. Through this activity, the HACSC hopes to provide incentives to retain property owners in the Section 8 Program even possibly attracting new owners into the Program.

A vacancy payment is paid to a participating owner who re-leases a unit previously leased to a Section 8 family, to a new Section 8 family. The vacancy payment will be similar to the type of payment paid to owners under the Project Based Voucher Program.

Santa Clara County's low rental vacancy rates means landlords typically receive multiple applications for one rental unit, and they can afford to be extremely selective in their choice of tenants. As such, possibly less-qualified Section 8 families are directly competing with open market renters. The proposed vacancy payments program will give property owners an incentive to continue their participation in the Section 8 Program by minimizing the property owner's loss of income when a unit is in transitional period between tenants.

EVALUATION AND FOLLOW-UP

The Housing Department (City Housing Authority) will continue to work with the HACSC to ensure that City Housing Authority priorities are considered throughout the MTW process. As appropriate, staff will return to the Board of Commissioners if action is needed to provide formal City Housing Authority comments and direction.

PUBLIC OUTREACH

From September 2015 to January 2016, the HACSC hosted several meetings with the community and other stakeholders regarding the 2017 MTW Plan. Additionally, on February 18, 2016, the HACSC will post the draft MTW Plan on its website for an additional 30-day public review period. On March 7, 2016, the HACSC is scheduled to hold a public hearing to provide the opportunity for the community and to comment on the 2017 MTW Plan. Finally, the proposed 2017 MTW Plan will be presented to the HACSC Board of Commissioners at their meeting on March 22, 2016, and is due to HUD by April 15, 2016. The City Housing Authority will post this memorandum to the City's website for the March 8, 2016 Council/Board of Commissioners meeting.

COORDINATION

This Memorandum has been coordinated with the Office of the City Attorney.

CEQA

Not a Project, File No. PP10-068, General Procedure & Policy Making.

/s/
JACKY MORALES-FERRAND
Director of Housing

For questions, please contact Patrick Heisinger, Senior Development Officer at (408) 975-2647.