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Staff Reports

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To: Honorable Chair and Commissioners

From: Vincent Smith, Community Development Director

Prepared By: Sabrina Flores, Rental Assistance Program Supervisor

TITLE:
Section 8 Housing Choice Voucher Program Payment Standards

RECOMMENDED ACTION:
Adopt a resolution approving updated Section 8 Housing Choice Voucher Program Payment Standards.

DISCUSSION:
The Section 8 Housing Choice Voucher Program (the "Voucher Program") uses payment standards which are the maximum subsidies that the Housing Authority can pay on behalf of a family ("Payment Standards") based on the annual fair market rents ("FMRs") established by the U.S. Department of Housing and Urban Development ("HUD"). Fiscal Year 2020 FMRs are calculated using the 2017 American Community Survey ("ACS") one-year data, the 2013-2017 five-year data and information from local survey data. The latest FMR rates were published in the Federal Register and were effective October 1, 2020. The FMRs for Fiscal Year 2020 increased between 1% to 9% depending on bedroom size.

The Housing Authority is required by HUD to set the Payment Standard between 90% and 110% of the FMR for each bedroom size. The level at which the Payment Standard is set directly affects the amount of subsidy a family will receive, and the amount of rent paid by program participants. It also directly impacts the number of units that participants can rent within the Payment Standard. If the Payment Standard is too low, families may need to pay more than they can afford, or families may have a hard time finding housing. Based on an analysis of rents, cost burdens, and the Section 8 program's budget, staff recommends setting the Payment Standards at 100% of FMR for studios and six-bedroom units, 101% of FMR for one, two, and three-bedroom units, and 101.8% of FMR for four and five-bedroom units. This would increase Payment Standards for studios, one, two, and three-bedroom units which make up 99% of the vouchers currently issued. Four and five-bedroom units would be kept at the current 2020 Payment Standards, and six-bedroom units, for which there are currently no vouchers issued, would be dropped to 101% of FMR to be consistent with the FMRs for other units in the Voucher Program.

In developing Payment Standard recommendations, staff considered the current rental market. The vacancy rate for rental units in Napa County remains low, and voucher holders often have a difficult time locating units within the Payment Standards. Typically, staff would also look at the success rates for voucher holders utilizing their vouchers. However, due to HUD's COVID-19 waivers which temporarily eliminated the time limit for voucher holders to secure units, it is not possible to accurately calculate current success rates. As of January 2020, landlords in California can no longer refuse to rent to Section 8 tenants. It is unclear if this expanded the inventory of units. Finally, the impacts of COVID-19 on the rental market appear to be varied. On one hand, more landlords appear to be interested in participating in the Voucher Program due to the benefits of a guaranteed rental stream regardless of their tenant's employment status. However, on the other hand, as more employees can work remotely, there has been a reported increase in demand for housing units caused by households moving to Napa County from elsewhere in the Bay Area.

Another factor to consider when adjusting the Payment Standards is the extent to which current voucher holders are cost burdened. When a voucher holder's landlord increases the rent above the Payment Standard, the voucher holder has the option to either move or to remain in the unit and pay for the portion of the rent above the Payment Standard themselves. This results in some voucher holders becoming cost burdened (defined by HUD as paying over 30% of their incomes on housing). There are currently no vouchers issued for studios or six-bedroom units. Under the current Payment Standards, 16% of one-bedroom voucher holders, 25% of two-bedroom voucher holders, 20% of three-bedroom voucher holders, and 13% of four-bedroom voucher holders are cost-burdened, meaning the rents of their units are above current Payment Standards. Under the recommended adjustments to the Payment Standards, this would drop to 6% for one-bedroom voucher holders, 10% for two and three-bedroom voucher holders, and remain at 13% for four-bedroom voucher holders.

Another consideration is whether market rents are expected to increase over the upcoming year. The State moratorium that prohibits increasing rents by a total of more than 10% since the October 2017 wildfires is set to expire on December 31, 2020. It is unclear if the Governor will extend the current moratorium or enact a replacement moratorium due to this year's wildfires. There was also recently a State rent control measure implemented in January 2020. However, current language appears to exclude units assisted under the Voucher Program. Therefore, it is not currently clear whether there will be rent protection measures for the units rented by Voucher Program participants in 2021. However, in a recent search of available units in the market, it appears that many available rental units are well above both existing and proposed Payment Standards; Payment Standards would need to increase beyond HUD's cap of 110% in order to provide substantially more units available to Section 8 voucher holders.

A final consideration is the impact adjusting Payment Standards has on the Voucher Program's budget. HUD funding is set in large part on the amount of housing assistance paid in the previous year. Therefore, increasing the Payment Standards means less funding in the upcoming year would be available for the Housing Authority to issue additional vouchers because the amount of assistance provided to current participants has increased. Under the proposed Payment Standards, the Housing Authority would maintain reserves at approximately 2% (HUD recommends maintaining reserves at ½% to 4% of the HUD allocated Section 8 Program budget). When establishing Payment Standards, the Housing Authority must balance its goals of maximizing the households served, minimizing participants cost burdened by rent, and maintaining financial stability for the Program.

Factoring in these various considerations, including the rental market, the cost burdens of participants, and the financial impacts to the Section 8 program, staff recommends the Housing Authority Board approve adjusted Payment Standards at 100% of the new FMR for studios and six-bedroom units, at 101% of the new FMR for one, two, and three-bedroom units, and at 101.8% for four and five-bedroom units. These proposed Payment Standards reflect an increase in Payment Standards of 2% to 9% for studios through three-bedroom units, no change for four and five-bedroom units, and a decrease of 2% for six-bedroom units (note again, there are currently no vouchers issued for six-bedroom units). Staff recommends making the new Payment Standards effective April 1, 2021 to reduce the administrative burden of having to recertify participants. Setting the Payment Standards to these levels should continue to allow the majority of families issued vouchers to locate units, reduce the cost burden for most cost burdened participants, ensure additional families can be issued vouchers, and maintain the HUD-recommended program reserve level of 1/2% to 4% of total annual HUD allocated budget. Each unit is still required to meet a rent reasonableness test to ensure the unit's proposed rent is reasonable in comparison to rents for similar units in similar condition in the area.

Staff also recommends it relook at Payment Standards in 2021 once more is known about market rents post-fire moratorium and as more of the impacts of COVID-19 on local rents are determined. If it appears that rents have increased significantly, then staff will bring back an item to recommend additional Payment Standard adjustments.

Attachment 2 lists the current Payment Standards and the proposed increases.

FINANCIAL IMPACTS:
For FY 2021, the increase in Payment Standards can be absorbed within the Housing Authority's existing budget. Staff estimates that over time, increasing the Payment Standards would increase housing assistance payments by a total of approximately $240,120 per year. HUD typically funds the Housing Authority for the upcoming calendar year based on the amount it spent in the previous year. This means the increase in payments for calendar year 2021 would be funded from the Section 8 Voucher Program's existing HUD held reserves which are currently at 6.6% (HUD recommends between 1/2% and 4%, but due to slow leasing caused by households sheltering in place and leasing offices closing in the spring as a result of the COVID-19 pandemic, the Housing Authority did not spend as much rental assistance funds as it had projected). It is anticipated that in the calendar year 2021, HUD will fund the Housing Authority an amount equivalent to the amount spent for housing assistance payments in calendar year 2020. If HUD does not increase the future funding, this increased cost would need to be absorbed through normal program attrition and program reserves. No additional budget authority is required for the FY 2021.

CEQA:
The Community Development Director has determined that the Recommended Action described in this Agenda Report is not subject to CEQA, pursuant to CEQA Guidelines Section 15060 (c).

DOCUMENTS ATTACHED:
ATCH 1 - Resolution approving Payment Standards
ATCH 2 - Summary of Fair Market Rents and Payment Standards

NOTIFICATION:
Notice of this agenda item was publicly posted 72 hours before the meeting.