


Housing Department
Office of the Director

April 20, 2004

To: Honorable Mayor and
Members of the City Council

From:  Phil Kamlarz, Acting City Manager

Subject: Payment Standard: Project Based Section 8

Staff has been asked to respond in writing to two questions related to increasing the payment standard for project-based Section 8 (PBS8) units served by the Berkeley Housing Authority.

1. Does allocation of project-based Section 8 place tenants at risk at the end of the 10 year PBS8 commitment period?

No. If the project-based allocation ends, the tenant is issued a portable voucher and can stay in the unit or move as they wish.

So far, all allocations of project-based Section 8 have been to non-profit housing developments with long-term affordability restrictions. The non-profit owners have made it clear that they would like the Section 8 allocations to continue for the foreseeable future and have no interest in "opting out" as long as the BHA can continue to provide Section 8. However, if the BHA cannot continue its commitment, the units would remain at below-market rents under the affordability restrictions created by the Housing Trust Fund and by other funding sources and the tenants would receive portable vouchers.

2. Will increasing the payment standard for project-based Section 8 result in serving fewer tenants in the Section 8 program?

No. This concern arises because under the current administration, HUD is moving away from its commitment to fully fund all authorized Section 8 vouchers. Under both the current and next years HUD budgets, however, the BHA is allowed to apply to HUD for additional funding from a pool set aside for housing authorities that have been underleased and are now reaching their authorized levels of households assisted. The BHA plans to do this, and expects to receive funding based on the full lease-up status that it will arrive at by the end of this fiscal year.

The HUD budget for next year provides Housing Authorities with a baseline funding amount plus an as yet unspecified inflation adjustment. If the inflation adjustment is less than the 3% increase proposed for 111 project-based Section 8 units by the time they are all constructed

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and under lease, and they all use the increase, then there is a theoretical possibility that fixed available resources would be sufficient to fund a number of units that is reduced by up to 3 units. However, under the new rules which do not allow the BHA to even temporarily lease more than the maximum allowable 1,841 units, the BHA will normally be operating at slightly under this, probably at about 1,825 units in order to prevent accidentally going over the allowable number. As a result, there will be margin available to handle this slight increase in the payment standard. The three projects that this applies to include 18 units already built, 17 units under construction, and 76 units not yet under construction. It seems unlikely that the allowable inflationary increase will not reach 3% by the time all of these units are built.

As a general principle, it is not a good idea to try to maintain the number of households assisted by holding down the rent payments made by the Housing Authority. This was the strategy that resulted in the BHAs decline from 1,840 units under lease to a low point of 1,260 units three years ago, as hundreds of owners left the program because the rents paid by tenants in the Section 8 program were not competitive with those on the open market. A recent report from the National Housing Law Project warns against overreaction by Housing Authorities to recent changes at HUD, and against focusing too much on controlling costs rather than maximizing voucher success, affordability, deconcentration and serving the neediest households. Should HUD programs continue to be cut back, there is every reason to move ahead with creation of as much permanently affordable housing as possible now while the resources are available.