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Summary of the Major Provisions of NAHRO's Framework to Restructure the HCV Program

Participating Agencies: All HAs administering the HCV program. To participate in the restructured HCV program (non-MtW agencies) in its entirety, an agency shall be at least a standard performer under the assessment system in the year it enters the program, and have an approved plan. Unless approved by the Secretary, HAs designated as "troubled" under the housing choice voucher program may implement all of the following provisions of the restructured HCV program, with the exception of eligibility criteria, and unit inspections.

Program Purposes: Funds can be used for both rental and homeownership assistance. No incentives for usage of funds. Special programs and purposes should receive additional and separate funding. To enable agencies to fully utilize their funding would be to allow them to use funding for homeownership downpayment assistance. The framework would also allow HAs (that are at least a standard performer) to use a small portion of unused voucher budget authority or ACC reserves, to assist families in finding and leasing a unit. NAHRO's framework would enable HAs that have already used their HAP to be able to use reserves for utilization and success rates of voucher recipients. Such assistance could be in the form of loans or grants to cover move-in fees and security deposits, housing search services, landlord outreach and incentive programs, tenant education and tenant/landlord mediation.

Income Targeting: Based on each agency's respective voucher holder success rates, HAs would have to issue a sufficient percent of all vouchers to "extremely-low income" (as revised above) eligible applicant households in order to maintain at least 75 percent of voucher-assisted households. This would be achieved by:

- Changing income targeting requirements to apply to a percentage of issued vouchers to extremely low-income households rather than tied to leased households; and
- Changing annual income targeting requirements to a percentage of voucher assisted households rather than to unassisted households. Agencies would meet the annual income targeting requirement so long as 75 percent of their voucher-assisted households were extremely-low income.

Specifically, an HA would be required to issue at least 75 percent of available (and funded) vouchers to eligible households at or below extremely-low income (as revised above), until such time that the HA assists 75 percent of households at or below extremely-low income (as revised above) on an annual basis. Having met the 75 percent threshold described above, an HA may issue no more than 90 percent of issued vouchers to households at or below 50 percent AMI, with an option to issue up to 10 percent of its vouchers to households up to 60 percent of AMI.

Recertifications: Retain annual household recertification requirement for all non-disabled / non-elderly families, and at least every two-years for elderly and disabled households. However, an HA could, at its discretion, conduct more frequent recertifications for elderly and disabled families and interim recertifications at random intervals determined by the HA for other families.

For any households on a fixed income, HAs would be permitted to apply the applicable annual adjustment factor to their fixed benefit (i.e. SSI) or income verified through TASS (whichever comes first) to determine their annual income for rent calculation

At the discretion of the HA, allow household income and composition recertifications within the last 90 days, performed by other federal, state, or local government entities (for LIHTC-assisted households, TANF agencies) etc., to stand in place for HA's recertification.

Oftentimes, voucher-assisted low-income households do not have significant changes in their annual incomes year to year, but they experience frequent changes in their sources of income and hours worked throughout the year. This causes significant administrative work for agencies having to change tenant rents several times during the year. To meet the goal of having tenants' pay rents based on their annual income, legislation could allow HAs at their discretion, to calculate tenant rent based on their prior year income for specific types of households including: seasonal employment, school employees (with summers off), households with irregular child support payments, or households with two or more year's worth of history of multiple employers each year.

Annually, HAs would be required to perform Quality Control checks on a random sample (equivalent of current SEMAP QC thresholds) of voucher-assisted households with particular attention to the accuracy of household income reporting. In cases where Quality Control checks demonstrated unreported income, third-party verification would be necessary. Third-party income verification would be eliminated in all other instances for wages, assets, etc. Instead, HAs would be required to obtain second-party verification such as pay stubs, W-2, Social Security printout, etc.

Housing Condition Standards: Requirement for each unit to meet HQS or state/local housing code annually, with certifications by other governmental entities (i.e. LIHTC inspections) etc., acceptable in lieu of HQS inspection by HA at agency's discretion.

Consistent with "Housing Affordability for America Act of 2002" (HR 3995), NAHRO supports allowing HAs to conduct inspections on a geographic basis rather than tying them to lease anniversary. The HA will be in compliance with annual HQS requirement by inspecting the unit within 9 to 15 months of the previous inspection or by documenting the inspection of another federal, state or local agency's who's inspection requirements meet HQS.

As part of their annual inspections described above, for multi-family development units, or duplexes or single family units owned and/or managed by the same entity that have a history of passing HQS or state/local code inspections without the need for correcting deficiencies, HAs could inspect up to 25 percent (or more at their discretion) of the units. In other words, for multi-family or duplex units, duplexes or single family units owned and/or managed by the same entity that have a history of passing HQS or state/local code inspections without the need for correcting deficiencies, HAs would meet the annual inspection threshold for all units in the building or units owned and/or managed by the same entity by virtue of the 25 percent of units passing HQS or state/local code inspections.

In all circumstances above, tenants and property owners would continue to maintain the right to request an interim inspection.

For new units, at each agencies discretion, they may allow the tenant to move into a vacant unit and sign a lease with the property owner in advance of an HQS inspection. HAs would reserve the right to have tenants and property owners to supply a copy of the lease and a document waiving HA of any liability related to housing conditions for events that may take place in advance of a passed HQS inspection as well as certifying that the unit has no healthy and safety violations. At HA's discretion, agencies could make

retroactive payments to the property owner on behalf of the tenant, to the lease date, so long as the HA performed an initial HQS inspection within 30 days (with no health or safety violations) and passed the new unit within 30 additional days (60 days total). (note: PIC system would need to be modified to allow for retroactive payment to occur).

Alternatively, for new units, at each agencies discretion, they may allow the tenant to move into a vacant unit and sign a lease with the property owner in advance of an HQS inspection. HAs would reserve the right to have tenants and property owners to supply a copy of the lease and a document waiving HA of any liability related to housing conditions for events that may take place in advance of a passed HQS inspection as well as certifying that the unit has no healthy and safety violations. At HA's discretion, agencies could make payments to the property owner on behalf of the tenant retroactive to the lease date, in advance of a passed HQS inspection. HAP payments would continue so long as the HA performed an initial HQS inspection within 30 days (with no health or safety violations) of the lease date and passed the new unit within 30 additional days (60 days total). (note: PIC system would need to be modified to allow for retroactive payment to occur). Extended non-compliance would be treated the same way as under existing regulations.

Housing Assistance Payment / Tenant Payment

NAHRO's Existing Rent Fairness & Simplicity Principles: While intended to preserve a safety net for families, the current legislative and regulatory system of calculating family rents in public and section 8 assisted housing presents a number of difficulties. Over time, it has become increasingly complex, leading to errors in rental charges as well as confusion among residents. NAHRO's Rent Fairness and Simplicity Working Group devised principles governing new rent structures that will:

1. Ensure a safety net for residents.
2. Set rents as low as possible to foster affordable housing, while maintaining the financial viability of the housing provider.
3. Be administratively simple, easy to understand for both administrators and clients, and will promote program integrity.
4. Include incentives for residents to increase household income towards achieving self-sufficiency as quickly as possible.

NAHRO's rent reform provisions (as opposed to rent simplicity provisions) will be subject to further study (located in our requested study section), after which, based on the study results some or all of our rent reform recommendations will be re-activated for national implementation.

Rent Fairness & Simplicity: Supporting a uniform percent of gross household income by family type. For elderly and disabled households, basing HAPs on a percent of gross household income with no deductions or income disregards that would result in the vast majority of participating households paying similar rent burdens as under the current rent structure. For purposes of rent structure, disabled and elderly households would not apply exclusively to the head of household but also to households where there is a disabled or elderly household member present.

For non-elderly and non-disabled households, basing HAPs on a percent of gross household income with no deductions or income disregards that would result in the vast majority of participating households paying similar rent burdens as under the current rent structure. NAHRO calls upon the Department to follow GAO's recent recommendation to provide Congress and program stakeholders with rent analyses of this kind as well as of other rent structures under the MtW demonstration.

40 Percent Cap in Total Tenant Payment: An issue that plays a large role in preventing lease-up of vouchers relates to the 40 percent cap on total tenant payment. Currently, families that are receiving voucher assistance for the first time or are currently in the program, but wish to move to a new unit are not permitted to pay more than 40 percent of adjusted income for rent. NAHRO supports a 40 percent cap based on gross household income to protect voucher recipients from excessive rent burdens, but believe that flexibility is key to addressing extenuating circumstances.

NAHRO's framework for restructuring the HCV program, would permit the 40 percent rent cap would be based on households' gross income vs. adjusted income, apply only to voucher holder's initial leased unit, and provide HAs with some discretion to waive the cap for good cause. After securing their initial leased unit under the HCV program, no further household rent burden cap would apply.

Minimum Tenant Rent: A minimum rent of up to \$50 should be adopted without hardship exemptions. The current system makes it impossible to effectively collect a minimum rent. This will assist in reducing the fraud associated with zero income renters.

Payment Standards & Rent Reasonableness: NAHRO's framework contemplates funding to accommodate payment standards at 100 percent of national FMR in FY 2006 and beyond using an actual cost distribution formula (with pro-ratio formulas if necessary based on appropriation). With those funds, HAs can set their payment standards up to 120%, or higher with HUD approval. Modified / simplified rent reasonableness requirement based on unit bedroom size, location and overall condition/amenities rating, and can be changed by HA with at least 90 days' notice.

\$0 and Negligible Income: HUD's Resident Characteristics Report (as of June 30, 2004) indicates 4 percent of Section 8 tenant-based assisted households report \$0 income, and 20 percent of households reporting \$1 - \$4,999 per year. Needless to say, households with \$0 reported income still have living expenses, and receive the deepest Section 8 subsidies. Currently, HAs spend considerable amounts of administrative time and expense as well as HAP expense trying to track down income from households that certify to \$0 income. NAHRO is considering a measure to provide an additional optional (i.e. voluntary) enforcement tool to HAs in this area.

NAHRO framework would require voucher holders and voucher-assisted households, upon request, to provide HAs with any and all expenses including but not limited to: food expenses not covered by food stamps, telephone bills, transportation expenses, cable tv bills, rented furniture, etc., upon request by the HA. Agencies have the option to require households to sign a consent form to run credit checks and any expenses included that indicate an income not previously reported. If subsequent to any credit checks, expenses are discovered to demonstrate any unreported income, HAs could recoup the cost of running the credit check as well as 50% of the HAP attributable to unreported income. In addition, the legislation language would give HAs the ability to use the annualized expenses as a proxy for annual income in determining the household's share of rent. In all circumstances this would be an option to HAs not a requirement. HAs would continue to follow their internal administrative plans on how to proceed, depending on the nature and severity of the household's non-compliance.

In the case where an eligible applicant reports a significant drop in income or negligible income (i.e. \$0) prior to 1) eligibility determination, 2) lease and HAP execution, 3) interim recertification due to decreased income or 4) their lease anniversary, HAs would reserve the right to run income checks for participating voucher holders and voucher-assisted households periodically to determine whether subsequent to the tenant's rent determination their countable household income increased at or near their former income level prior to their rent determination. In accordance with each HA's administrative plan governing the threshold amount for reporting increased household income and their interim re-examination policy, if applicable, HAs would be authorized to 1) increase the tenant's share with 30-days notice, 2) enter into a

repayment agreement for the period of time represented by the subsequent increase in household income, or 3) terminate the household's participation in the HCV program for unreported amounts exceeding the HA's thresholds for reporting those changes. HAs currently have the authority to verify income with the EIV process, when the "Exceeds Threshold Report" indicates an income discrepancy. However, under the circumstances described above, the framework would authorize HAs to run an EIV Income Check or require income verification at any time.

Where the HA determines that a member of a family voluntarily ceases employment without good cause or has employment terminated because of failure of job performance or misconduct, the HA would not be required to reduce tenant payment based on the reduction in the family's income resulting from such loss of employment.

Requirement of HUD to fully implement PIC viewer to enable HAs to access information the status of applicants and participating households who left any federal housing program.

Intersection of Section 8 Tenant-Based Rent and Tax-Credit Rent Preserves existing rent reasonable rents when there is a Section 8 tenant-based subsidy in a tax credit unit. However, HAs would have the ability to use rent comparables for units outside of the LIHTC development for this purpose.

Duration of Assistance: Since NAHRO's duration of assistance provision from March 2005 is tied to our rent reform provisions (as opposed to rent simplicity provisions) subject to further study (located in our requested study section), the duration of assistance provision will be re-activated with our rent reform provisions once fully studied for national implementation.

Utilities:

- No utility allowance required, unless Congress appropriates funds for it
- If Congress funds utility allowances, at the agency's discretion, they may use State "lifeline" utility rates (if applicable).
- Tenant utility reimbursements also eliminated
- HA does not report on utilities use or cost to HUD. Instead, HUD will continue to calculate utilities as a separate component of FMRs and report them separately from rents.

Number of Families Assisted Maximum number of families served with funding available: Remove the prohibition on temporary annual over-leasing implemented in FY 2003 with at least a 60-day cure period.

Conversion to Down-payment Assistance: Developers may enter into agreements with eligible voucher holding families for purchase of homes that are already built, anticipated to be constructed, or under construction.

To enable agencies to fully utilize their funding would be to allow them to use funding for homeownership downpayment assistance. A housing agency may use funds appropriated for single downpayment assistance grants to eligible families authorized under section 301 of the American Homeownership and Economic Opportunity Act of 2000 (Pub. L. 106-569, 114 Stat. 2944, 2952, approved December 27, 2000).

Portability

- Ability to port should continue
- Portability should be paid for
- HUD should reconcile costs of portability with each HA from HUD central fund

- Reconciliation timeframes to consider timely reimbursement (on a quarterly basis)

Additional regulatory and administrative portability reform recommendations enumerated in *What HUD Can Do Now* (<http://www.nahro.org/members/news/2005/HUDActNow.pdf>)

Expansion of Moving-to-Work (MtW) Demonstration to a Permanent Program: If enacted as a permanent program from its current demonstration status, it would be expanded from approximately 30 HAs to 100 qualifying HAs on a competitive basis.

Project-basing of Vouchers:

- HA can project base up to 30% w/o special requirements
- HA can project base an additional 45% w/o HUD approval if payment standard does not exceed 90% of FMR
- Project-based units will remain project-based at HA option; families may apply to waiting list if they wish to move

NAHRO would support the Thrifty Production proposal, if it becomes a limited demonstration that is funded separately and does not detract from existing affordable housing programs. NAHRO appreciates the authors desire to increase the available tools to provide affordable housing. As long as this provision remains voluntary, and the report language clarifies that this is voluntary, NAHRO would not oppose this provision. We do, however, believe it warrants a demonstration before it is implemented nationally. <http://www.nahro.org/members/committees/housing/2001-2003/200112ThriftyProductionVouchers.pdf>

Extremely low-income households would receive special vouchers for units produced under capital subsidy programs such as the LIHTC, HOME, CDBG, and the new mixed-income, multifamily rental production program proposed elsewhere in this report. Payment standards for units served by these “thrifty production vouchers” would equal the operating cost, rather than being based on the Fair Market Rent. These vouchers could be targeted to places where the tenant-based voucher program has had little success, or where there is a severe shortage of rental units at or below the program Fair Market Rent.

Self Sufficiency / Other Adjunct Programs:

- Requested \$72 million for FSS in FY 2006 and supports adequate funding for program in future years.
- Programs must be authorized and funded separately; appropriations for rental/homeownership assistance used only for HAP and administration of program
- HUD self-sufficiency programs to be appropriated within HUD rather than other federal agencies
- HUD services should be augmented by services through other related federal programs/agencies; re-establish an interagency council to coordinate efforts

NAHRO proposes retaining other “special purpose” programs. NAHRO proposes retaining other “special purpose” programs, such as Mainstream program, Tenant-protection vouchers, Family Self-Sufficiency, Welfare-to-Work, Moving-to-Opportunity demonstration, Family Unification Program, Veterans Assisted Housing program (VASH), etc.

Vouchers for the above programs were awarded based on each population’s severe housing needs in their communities as well as the capabilities of housing agencies and service providers in those communities. NAHRO does not believe that HAs should be faced with the political burdens of having to remove scarce resources from low-income special populations with worst housing needs amongst those with “worst-case” housing needs. NAHRO does not believe that HAs should be faced with the political burdens of having to

remove scarce resources from low-income special populations with worst housing needs amongst those with “worst-case” housing needs.

Household Level Reporting Systems: HUD Form 50058 and the information reporting requirements associated with it would be simplified and allow for multiple rent models. The HA Plan would be retained but simplified. HAs’ Voucher Management System (VMS) should be retained.

NAHRO will request line-item funding to assist HAs in offsetting software costs associated with new tenant rent calculation systems and other implementation features of the proposal.

Income Verifications: NAHRO supports full implementation of all electronic forms of income verification including the Tenant Assessment System (TASS), Up-front Income Verification, and the New Hires Database.

HAs have the discretion to establish reasonable requirements concerning second-party household income documentation. HAs would be permitted, but not required, to perform “manual” third-party income verifications.

NAHRO seeks a “technical correction” to the New Hires Database legislation that passed in FY 2004, to allow the fact that HAs have individually signed 50058 forms rather than HUD Headquarters be sufficient to meet states’ confidentially threshold requirements. Require states to participate with HUD in Up-front Income Verification (UIV) and National Hires Database data sharing agreements in order to continue to receive any HUD program funding (i.e. CDBG, HOME, McKinney-Vento, Public Housing, Section 8, etc.).

Public Process: HAs would also be required to publicly consult with their community (stakeholders with whom HAs have consulted with in the past), including their residents, when developing their annual plans; resident and other comments would also be submitted to HUD along with the plan.

Agency Performance Standards: Performance standards and monitoring procedures applicable to the revised HCV program would be developed to be more outcome-based rather than process-based. Such standards and associated reporting requirements should be as minimal as is possible consistent with HUD’s oversight responsibilities. Inequities in the SEMAP point rating system adversely affecting small HAs would be remedied. Outcome measures would include market characteristics such as vacancy rates.

Performance standards and monitoring procedures applicable to the revised HCV program would be developed. Such standards and associated reporting requirements should be as minimal as is possible consistent with HUD’s oversight responsibilities.

Studies Requested: Program development is often supported by studies and actions designed to inform the process. In an undertaking as comprehensive as restructuring the Housing Choice Voucher program, it is reasonable to perform certain studies, and take certain actions, that will ensure the long-term viability of the decisions coming from stakeholders’ deliberations. The analyses recommended herein will more thoroughly define the issues and inform options for solutions. Some of the items have already been requested by Congress; others have been identified by NAHRO as important steps towards responsible reform. A complete list of NAHRO’s recommended studies can be accessed at: <http://www.nahro.org/members/news/2005/HCVReformStudies.pdf>

Housing Assistance Payments: FY 2007 - \$14.7 billion in Housing Assistance Payment funds including funds for increased utility rates; \$72 million for the Family Self-Sufficiency program (including escrow

account funds), and approximately \$100 million (estimate) to finance Housing Agencies' software conversion costs attributable to new gross income tenant rent structure.

'Hybrid' Funding Formula: NAHRO's funding proposal is not a block grant. NAHRO played an instrumental role in developing a 'hybrid' funding policy, that will provide more stable and rational funding to all agencies in an equitable manner as well as distributed limited federal resources in an efficient manner with cost containment measures. Key components of the "hybrid" formula, include but are not limited to:

- 1) basing HA's FY 2006 annual funding upon weighted average cost and leasing data for the most recent 12-month period for which data is available at the time of enactment, adjusted by the applicable HUD inflation factor for that area;
- 2) to correct for distributional problems in the FY 2004 and 2005 formulas, an adjustment option for agencies affected by sudden budget shortfalls;
- 3) funding a program reserve for each agency of at least two weeks' worth of funding; and
- 4) a capped fund for annual voucher leasing and cost adjustments for established commitments, or documented factors beyond an agency's control; and reallocation of unobligated and unspent funds to augment current year funding.

Administrative Fees: FY 2007 - \$1.4 billion in administrative fee funds. Until further study, NAHRO recommends restoring administrative fees based on number of families served and at the previous rate, in accordance with section 8(q) of the U.S. Housing Act, 42 U.S.C. 1437f(q), and distributing the funds in an identical fashion to our recommended HAP formula using the most recent 12-months of leasing. If an agency leases additional authorized vouchers or additional vouchers within its allocated budget authority (under "maximized leasing"), it should also be eligible for additional fees. HUD should retain an administrative fee fund to pay such supplemental fees as well as to pay agencies special one-time and supplemental fees authorized by regulation, such as for serving hard-to-house families, lead paint testing, independent audit costs or serving large geographic areas. If sufficient HAP funds remain after meeting the base formula, program reserve and Central Fund distributions, HUD should be directed to reprogram unspent funds through a reciprocal "fungibility" provision between the HAP and administrative fees within the tenant-based account, in order to educe or avoid the need to prorate administrative fees.

Appropriations Benchmarking: NAHRO's framework would also provide a benchmark for use in the annual appropriations process, Congress would provide a reference to Congress in determining how well the voucher program meets the nation's affordable housing needs and would supply a reference point for determining the amount of annual appropriations.

American Community Survey (ACS): NAHRO supports funding and full implementation of ACS for better FMRs, AAFs, in future.