



TACOMA HOUSING AUTHORITY

To: Interested Persons
From: April Black
Date: January 16, 2018
Re: Moving to Work 2018 Plan Amendments

The Tacoma Housing Authority (THA) seeks comments and suggestions about two changes it is considering to its housing programs. The main change would help THA with its continuing and increasingly hard struggle to serve the same number of needy households at rising rental costs in one of the hardest rental markets in the nation and to do so with flat funding from HUD. The other change would have THA retain property it already owns. Instead of its original plan to sell this property, THA proposes to keep it and to develop a campus to house and serve homeless youth.

The biggest topic of discussion in the development of THA's 2018 budget has been the expenditure of THA's Housing Assistance Payment (HAP) funds. This is the largest allocation of federal funding that THA receives, approximately \$35.5 million per year. The main challenge is to conform with HUD's expectations that we continue to serve the same number of families as the baseline number of families HUD assigned to THA in 2010 when we become a Moving to Work (MTW) agency. This expectation has been manageable up to the last few years. Starting about two or three years ago, however, the Tacoma rental market has accelerated to make it one of the hottest rental markets in the nation. In response, we have increased the value of our vouchers to try and keep our assisted families competitive. This has increased THA's costs by an additional \$600,000 per year for each of the last three years. We do not see any change in the next year covered by this budget. Instead, we anticipate in 2018 an additional \$625,000 cost to fund the same number of vouchers. Yet, Congressional funding for this program has remained largely flat over that time and will likely remain flat. This is not sustainable. The arithmetic just does not allow us to serve the same number of families at an increasing cost with flat funding. In response, THA poses to lower the target number of families it serves. It will still try to serve its baseline number, but this change will have THA face the arithmetic.

THA also owns a parcel of property on Tacoma's eastside. THA had planned to sell that land for future developments and it told this to HUD when THA redeveloped Salishan. THA would now like to keep this property to develop housing for homeless youth and young adults. THA must seek public comment in order to do this.

These changes would show in an amendment to THA's 2018 Moving to Work (MTW) Plan. We warmly welcome your comments and suggestions. Please send them to us by **February 15, 2018; 5:00 p.m.** You can do that by email, mail or telephone to:

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THA will hold public hearings to listen to your comments:

February 5th

11:30 AM Bay Terrace – 2550 S G. Street, Tacoma 98405

6:00 PM Tacoma Housing Authority – 902 S. L Street, Tacoma 98405

THA's Board of Commissioners will consider these changes on February 28, 2018; 4:45 PM at EB Wilson Apartments, 1202 South M Street in Tacoma. You are also welcome to attend and comment then.

SOME DETAIL ABOUT THE PROPOSAL

1. LOWER THE NUMBER OF HOUSEHOLDS THA PLANS TO SERVE WITH ITS FEDERAL FUNDING

Each year THA budgets for its upcoming fiscal year. THA's fiscal year aligns with the calendar year. On December 13, 2017, the THA Board adopted a THA budget for fiscal year 2018. The annual budget reflects an estimate of the expected revenues and expenditures for each of its departments and major programs. The budget denotes strategic choices.

To write a budget, THA must presume on the expenditures necessary for its rental assistance programs. These programs are THA's largest, measured by either persons served or money spent.

The calculation begins with a requirement of the MTW statute. That statute requires that each MTW agency plan to serve "substantially the same" number of families we would serve if we were not MTW.

HUD and the MTW agencies have contended over the meaning of this requirement for the past several years. HUD assigns to each MTW agency a "baseline" number of families calculated from the number each agency was serving right before it became an MTW agency. For THA, which became an MTW agency in 2010, our baseline number for 2018 is 4,570.

HUD has recently clarified its view that the requirement to serve "substantially the same" as the baseline number means serving the baseline number. This is called 100% utilization. In the discussions with HUD over its interpretation, THA has offered its legal opinion that HUD's interpretation clashes with the statute. For example, "substantially the same" does not mean the "same".

Up to 2017, THA has been able to reach 100% utilization easily enough. However, beginning in 2017, the steeply rising Tacoma rental market caught up to us. That market had been rising quickly since 2015. Tacoma's rental market is now among the fastest rising in the nation. That market presents two different and reinforcing challenges to our families and to our budget. **First**, the value of our vouchers has trouble keeping up with the rising rents. **Second**, as vacancies diminish, landlords get fussier. Our families do not compete well against other tenants with stronger credit or rental histories. About 40% of our families who receive a new voucher from THA, after waiting years for it, cannot find a landlord willing to rent to them within the 3 months they have to use it. They require extensions of up to another 6 months, and more frequently longer.

At the same time, THA has received no increase in funding. Indeed, our funding has been essentially flat since 2013. Our judgment about Congress does not allow us to anticipate any increases in funding in 2018 or beyond.

In response to the market, THA has increased the value of its vouchers in an effort to keep its assisted families somewhat competitive. This has direct budget consequences. THA has increased what it has spent on rent payments for the same number of families by \$600,000 each year for the past three years, for an accumulating total increase of \$1.8 million. We have done that by redirecting funds from reserves and other uses. We do not see an end to the market's rise. For 2018, we expect the rising cost to THA of subsidizing same number of vouchers to be an additional \$625,000. This increase is not sustainable.

THA now must face the brutal arithmetic. HUD does not adjust the baseline number to account for either the changes in our rental market since 2010 or flat congressional funding. In such a circumstance, the arithmetic tells us that we simply cannot serve the same number of families at such increasing costs when congressional funding is flat.

The Board has considered the four main options available to THA to manage this challenge. I describe them below. At the Board's direction, THA's 2018 budget adopts the fourth option. Pursuant to that option, while the budget funds efforts to try for 100% utilization rate, it presumes that we will end up with a 95% utilization rate. Here are the four options and the reasons why the Board chose the fourth one:

1.1 *First Option: Lower the Value of Vouchers: "Thin the Soup"*

We could lower the value of our vouchers to spread the money over more families and perhaps raise our utilization rate. We did this in 2010 in response to that year's Congressional funding shortfalls. Doing that allowed THA to avoid removing anyone from our programs for lack of funds. We call this option "thinning the soup". The first option would have us thin the soup further and further reduce the value of our voucher. We judge that doing this in 2018 would be a mistake. Our market is much tighter now. Our present voucher values are having trouble competing in the market. Lowering their value further would make them less competitive and instead may lower rather than raise our utilization rate.

1.2 *Second Option: Favor Higher Income Households*

We could purposefully redirect vouchers away from lower-income households to higher income households. Doing this may increase our utilization rate in two ways. **First**, those higher income households are probably more competitive in the market than lower-income households. **Second**, vouchers for those higher income households cost less because the households pay more of the rent. However, we will not do this because it would clash with THA's strategic objective directs that us to it "focus this assistance to meet the greatest need."

1.3 *Third Option: Redirect Money from Other Services and Purposes*

We can redirect funds from other services, support and investments to pay for the increased cost of 100% utilization. For example, THA spends \$3.4 million on supportive services, the Education Project, and administrative support. I attach the chart we use to depict these expenditure choices. We could serve more

families if we redirected the money to vouchers. This budget does not propose we do that. We do not propose it for three main reasons.

First, this budget does not propose to cut those other services because they are valuable. Moreover, they are valuable in ways that increase utilization. These services include the following:

- Supportive services: These services help our families succeed as tenants. Some families need help to stabilize coming to us from homelessness, domestic violence or other trauma. Services make their success as tenants a lot more likely. These services also drive our mission to help them succeed, not just as tenants, but also “parents, students, wage earners and builders of assets.”
- THA’s Education Project: This project is a THA signature initiative. It seeks ways to help the people we assist succeed in school and help the success of Tacoma schools and colleges in educating low-income students. This project too is central to THA’s mission.
- Real Estate Development: THA is buying or building housing to increase its portfolio of housing. It is urgent that THA do this as Tacoma gentrifies. In five years the only affordable housing in large parts of Tacoma and their only measure of racial and economic integration will be from housing we now succeed in building or buying. Yet we have 3 to 5 years to do this before the land becomes too expensive. Moreover, these purchases or developments will become the only housing that will accept THA’s vouchers. In that way, they will help THA’s utilization rate.
- Administrative Services: We spend the money it takes to administer THA and its programs. We must always be mindful that we are reasonably efficient. We have some benchmarks to assure us that we are. **First**, Congress does not fund us at levels that HUD judges it takes to administer the Section 8 program and the portfolio. We use funds to backfill these shortfalls. But we do not backfill our operations to more than what 100% funding would give us. **Second**, we spend only 6% on our back office functions of Finance, Administration, HR and Executive functions. This is well within the normal range, especially for such a heavily regulated business like a housing authority.

Second, we do not propose to curtail these expenditures and redirect money to more vouchers because these expenditures are necessary to serve more families, for our voucher families to find housing and to our hopes of getting as close as possible to 100% utilization. For example:

- Real Estate Development: The budget will allow us to build or buy more housing. This will increase the number of families we serve. That will help our utilization rate. This housing development will also ensure that those properties at least will remain one of the dwindling number of properties in town that will welcome vouchers. We will know that they will welcome vouchers because THA will own them. That too will help our utilization rate.
- Supportive Services Helps Families Find and Keep Housing: Our services will help families find and keep housing. For the first time, we are budgeting a landlord-liaison function to help recruit landlords to the voucher program and to help families shop for landlords. Our supportive services will intervene when problems arise in a tenancy. This too will help recruit landlords. It will also save tenancies that may otherwise end. All this will help our utilization rate.
- Administrative Services: We are spending a lot of money on our software conversion. We also spend a lot on staffing our programs. This is necessary to provide the customer service necessary to recruit landlords to our voucher programs.

Third, we do not propose to redirect other expenditures to vouchers because doing so is not sustainable. Our rental market is increasing our voucher payment costs by \$625,000 a year. We do not see an end in sight. If we cannibalized our other services and operations at that rate it quickly would so weaken THA that we would not be able to function at acceptable levels of competency and customer service.

1.4 *Fourth Option: Face the Arithmetic*

The Board has chosen a fourth option. This option would have THA face the arithmetic directly. That arithmetic tells us that it is impossible to serve the same number of families at such an increasing cost with flat funding. Therefore, while this budget provides services that we hope will get us to 100% utilization, for purposes of devising a balanced budget, THA's 2018 budget proposal presumes on a 95% utilization rate. That rate is about where THA's utilization currently is.

NOTE: THA serves other households that do not count toward our utilization rate. For example, the budget provides approximately \$1.3 million for special program initiatives:

- Rapid rehousing for homeless families
- Housing for unaccompanied youth

The funding for special programs represents housing an equivalent of approximately 140 families per year that somehow does not count toward HUD's

baseline. If we did count them toward HUD's baseline, it would increase our utilization rate by 3% or so. Also, we house still other families in our properties that receive no HUD funding. Somehow, they do not count either. Counting them would increase our utilization rate even further.

We come to this fourth option after extensive consultation with HUD staff, other housing authorities, our congressional offices and consultants. We understand that this lowered utilization rate will be acceptable as long as we explain our choice.

We are now asking for the views and suggestions of the community. If the community offers other ideas or suggestions to balance our budget, the Board could take that chance to revise the budget. This is the feedback we are asking for now during this public comment period.

2. RETAIN PROPERTY AT THA's ARLINGTON DRIVE

THA owns a parcel of property on Tacoma's eastside. THA had planned to sell that land for future developments and it told this to HUD when THA redeveloped Salishan. THA now intends to retain property located at 38th and Portland Avenue to provide a Crisis Residential Center (CRC) for housing and social services to assist low income homeless youth in Pierce County. The CRC will offer significant benefit to low-income individuals by serving one of the most vulnerable populations; youth 12 to 17 who are currently homeless or experiencing crisis or conflicts in their home environment making them at risk of homelessness. The population is either homeless or near homeless; thus by no means exceeding 80% AMI. THA will be requesting an exception to the requirement to compensate HUD for the retention of the property.

CONCLUSION

Upon completion of the public comment period, THA will consider all comments. It will then fashion a proposal for its Board of Commissioners for approval. THA plans to seek board approval at the February 28, 2018 Board of Commissioner meeting.