



Good Neighbors

San Diego  
Housing Commission

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# REPORT

DATE: For the Agenda of August 17, 2001 **ITEM 104**

REPORT NO.: HCR01-092

SUBJECT: Section 8 Project-Based Rental Assistance Program (Citywide)

## SUMMARY

**Issue:** Should the Housing Commission implement a Project-Based Rental Assistance Program (PBRA), by entering into Housing Assistance Payment (HAP) contracts with property owners, utilizing a portion of the Housing Commission's Section 8 Tenant-Based voucher allocation, as allowed by HUD regulations and envisioned in the adopted Agency Plan?

**Recommendation:** That the Housing Commission approve implementation of a Section 8 Project-Based Rental Assistance Program and authorize the Chief Executive Officer to enter into HAP contracts with property owners participating in a Section 8 Project-Based Rental Assistance Program, selected according to the process and criteria outlined herein. This Section 8 Project-Based Rental Assistance Program shall be implemented in accordance with all applicable HUD regulations and procedures.

**Fiscal Impact:** None. Program anticipates using revenue for up to 1,800 vouchers currently in the Rental Assistance Program budget.

**Previous Related Action(s):** On March 23, 2001, the Housing Commission approved the FY2002 Annual Agency Plan, in which the Housing Commission's proposal to project-base Section 8 vouchers is detailed, a prerequisite by HUD. The Housing Authority subsequently approved the FY2002 Annual Agency Plan on April 17, 2001. HUD approved the FY2002 Annual Agency Plan on June 15, 2001.

**Affordable Housing Impact:** No change in housing assistance provided to very low-income renters. However, 2,000 voucher holders are currently seeking appropriate rental units. An available supply of project-based housing could facilitate their search.

## **BACKGROUND**

A Project-Based Section 8 Program ties a rental assistance voucher directly to a specific project or unit for a term determined by the Housing Commission. This differs from a tenant-based program in which the voucher is issued to the family for housing that they select. In the Project-Based Program, eligible families, referred by the Housing Commission's waiting list, agree to live in the specific project-based dwelling units for at least one year.

On January 16, 2001, HUD published a notice of amendments made to existing law related to the Project-Based Rental Assistance Program. A major change was to allow existing housing projects, in good condition, to participate in the program, where only planned new construction and rehabilitated projects were previously allowed. Other major changes included increasing maximum program size to 20 percent of a PHA's Section 8 allocation, limiting the vouchers to 25 percent of the units in any one building, increasing the duration of HAP contract to 10 years, and allowing a family to move out of a project-based unit after 12 months with a tenant-base voucher provided by the PHA. Additional changes are listed in Attachment 1.

## **DISCUSSION**

In the County of San Diego, only one in four households can afford a median-priced home, and nearly half of residents are renters. The San Diego County Apartment Association reports that rental vacancy rates hover around 2 percent.

The Housing Commission currently has issued new vouchers for 2,000 families who are now looking for appropriate housing in which to use their vouchers. Since January 2001, approximately 5 percent of vouchers issued have expired because the family could not find housing. If the Housing Commission had preexisting arrangements with property owners, this additional resource could have been utilized by those families unable to locate suitable housing.

The FY2002 Annual Agency Plan includes an outline of a proposed PBRA Program, which this report seeks to implement. The Housing Commission's program encourages participation by owners of units located outside of poverty and minority concentration, awarding the highest points to those projects. Demographic distribution of assisted households is periodically evaluated to identify areas within the city where owner outreach should be targeted to further deconcentration efforts.

The proposal to project base vouchers was based on the declining availability in the rental housing market and the lack of units available to voucher holders. Project basing vouchers to specific units has the effect of preserving those units as affordable for the duration of the HAP contract.

For properties that have received Housing Commission loans, the amount of rent collected is usually restricted to the affordability level imposed by the Commission. However, for “at-risk” projects where HUD affordability restrictions were scheduled to end in the near future, owners are allowed to collect the Section 8 rent if the tenant does not have to pay more than the formula restricted rent.

For projects that have outstanding Housing Commission loans, project-based vouchers would enhance the security of those loans. The Commission can help borrowers improve the financial well being of these properties by allowing for exceptions to the existing affordability restrictions imposed by the Commission, with a three-year contract, subject to one-year extensions upon approval by the Housing Commission CEO. This project-based plan would add another category of exception to the general practice.

**Application Criteria:**

To initiate the PBRA Program, the Housing Commission has announced the availability of Section 8 vouchers for project basing in qualifying projects. Applicants must be responsive to selected criteria in order to be considered (Attachment 2). A public notice (Attachment 3), has been published in the local newspaper and mailed to known multifamily project owners. The notice indicates that the Housing Commission will accept applications on a continuous basis (no deadline) and that the applications will be evaluated as they are received.

**ALTERNATIVE**

Do not approve implementation of a Project-Based Rental Assistance (PBRA) Program. This is not recommended because a PBRA Program is consistent with Housing Commission goals of deconcentrating poverty, preserving and expanding housing opportunities for Section 8 participants.

Respectfully submitted,

Patricia Duplechan  
Director of Housing Programs

**Signature on File  
With Original Document**

Approved by,

Elizabeth C. Morris  
Chief Executive Officer

- Attachments: 1. Statutory Changes  
2. Application Criteria  
3. Public Notice

## ATTACHMENT 1

### STATUTORY CHANGES - PROJECT-BASED RENTAL ASSISTANCE

Section 232 of the FY2001 Appropriations Act, signed into law on October 27, 2000, substantially revises current law (24 CFR 983) that governs the authority of a Public Housing Authority (PHA) to designate a portion of its available tenant-based voucher funds for Project-Based Assistance (PBA). The statutory changes to the project-based voucher program are intended to make project-basing of voucher assistance more flexible, enabling PHAs, participating property owners, and low-income tenants to quickly access the program. The following elements of the new law are effective immediately, while other elements must be implemented by HUD regulations and rulemaking.

#### Section 232 changes include:

- Allowing owners of **Existing Housing** units to participate in the PBRA program, along with owners of **New Construction** and **Rehabilitation** projects (see additional rules below). Housing will be considered “existing”, for purposes of the PBRA Program, if the units require a maximum expenditure of less than \$1,000 per assisted unit to comply with Housing Quality Standards (HQS);
- Eliminating HUD review and approval before a Housing Authority may implement and advertise a Project-Based voucher program for existing housing;
- Increasing the maximum PBRA program size to 20 percent (from 15 percent) of a housing authority’s total Section 8 allocation (approximately 1,800 vouchers for the Housing Commission);
- Limiting the use of PBRA vouchers to 25 percent of the units in any one building, except for single family dwellings and projects for elderly and disabled families (projects for supportive housing programs that serve targeted populations and have specific eligibility criteria will be added through HUD rulemaking);
- Increases the maximum duration of a PBRA Housing Assistance Payments (HAP) Contract from 5 to 10 years, and allows extensions. (both term and extensions are at the discretion of the PHA);
- Requires that the HAP contract allow a family to move out of a project-based unit after 12 months, and requires that the Public Housing Authority offer the family available tenant-based rental assistance by issuing a voucher.

#### **New Construction / Rehabilitation**

The process for allotting project-based vouchers to New Construction and Rehabilitated projects differs from the process used for Existing Housing, as follows:

- Written policies establishing a competitive procedures for selecting New Construction or Rehabilitation projects must be submitted to HUD for review and approval;
- Prospective projects must meet specific site and neighborhood standards. HUD must approve sites for New Construction as meeting those standards.
- Prospective Rehabilitation projects must have a minimum of \$1,000 required rehab per assisted unit.
- Selection factors must include consideration of: site; design; owner's previous experience in developing, marketing, and management; and the feasibility of financing and marketability of the project as a whole.
- New construction or rehabilitation work may not have started before signing an agreement to enter into a HAP contract at the completion of the project.

## ATTACHMENT 2

### APPLICATION CRITERIA SAN DIEGO HOUSING COMMISSION PROJECT-BASED RENTAL ASSISTANCE PROGRAM

#### Program Goals:

- Contributing to the upgrading and long-term viability of the area's housing stock; and
- Increasing the ease of use of vouchers and locational choices for low-income households.

#### Application Criteria:

To initiate the PBRA Program, the Housing Commission has announced the availability of Section 8 vouchers for project basing in qualifying projects. The public notice (Attachment 1), published on July 28, August 11 and August 18, indicates that the Housing Commission will accept applications on a continuous basis (no deadline) and that the applications will be evaluated as they are received based on the following criteria:

1. Documented need for affordable rental housing in the community where project is located. (30 points)
2. Location of the proposed development in relation to public facilities, sources of employment and services, public transportation, health, education, and recreational facilities. (20 points)
3. Extent to which the project contributes to the geographic distribution of affordable housing throughout the City of San Diego, promotes deconcentration of poverty, and furthers fair housing objectives. (15 points)
4. Proposed units fully meet federal Housing Quality Standards (HQS). [A rehab, by owner, of less than \$1,000 per assisted unit is allowed in order to comply with HQS]. Projects that serve families with children (2+ bedroom units) will receive highest score in this criterion. One bedroom and Single Room Occupancy (SRO) units will be given consideration if targeted for elderly and persons with disabilities. (20 points)
5. Prior experience of the applicant in managing residential housing. (15 points)

The Project-Based Rental Assistance Program application process will also be integrated within the Housing Commission's on-going Notice of Funding Availability (NOFA) for the Construction, Acquisition and Operation of Affordable Rental Housing. Through this process, applications for project-based vouchers will be accepted at the same time applications are submitted for funding of affordable housing development.

**Housing Assistance Payment Contract Term, Extensions:**

Housing Assistance Payment (HAP) contracts will be for a term of up to 10 years. The Housing Commission may extend the term of the HAP contract to achieve long-term affordability of the housing or to expand housing opportunities. HAP contracts and extensions are contingent upon the future availability of funds.

**Maximum Initial Gross Rent, Rent to Owner and Rent Adjustments:**

The Housing Commission will set the initial rent to owner, which must be reasonable, that is not more than rent charged for comparable units in the private unassisted market or comparable unassisted units in the project. The HAP contract will provide for adjustments of rent during the contract term, and the adjusted rents must also be reasonable in comparison with rents charged for comparable units in the private, unassisted local market.

## ATTACHMENT 3

### Announcing Project-Based Section 8 Voucher Program for Existing Multifamily Housing Units.

The San Diego Housing Commission is accepting applications from owners/managers of multifamily housing developments interested in receiving Project-Based Section 8 vouchers for up to 25 percent of the units in the development. This is a Federal Section 8 housing subsidy program that ties rental assistance directly to a specific unit or project for a term up to 10 years. Eligible families are referred by the Housing Commission's waiting list that agree to live in the specific project-based dwelling unit.

#### Application Requirements:

1. Letter of Interest
2. Narrative written response to evaluation criteria

Applications will be evaluated, based on responsiveness to the following criteria:

1. Documented need for affordable rental housing in the community where project is located. (30 points)
2. Location of the proposed development in relation to public facilities, sources of employment and services, public transportation, health, education, and recreational facilities. (20 points)
3. Extent to which the project contributes to the geographic distribution of affordable housing throughout the city of San Diego, promotes deconcentration of poverty, and furthers fair housing objectives. (15 points)
4. Proposed units fully meet federal Housing Quality Standards (HQS). [A rehab, by owner, of less than \$1,000 per assisted unit is allowed in order to comply with HQS]. Projects that serve families with children (2+ bedroom units) will receive highest score in this criterion. (20 points)
5. Prior experience of the applicant in managing residential housing. (15 points)

Approximately 900 Section 8 vouchers will be available for qualifying projects. Applications will be accepted on a continuous basis and evaluated in the order received. Only applications responsive to this public notice will be considered.

Applications are to be submitted (one original and two copies) to Rudy V. Cervantes, Division of Housing Services, San Diego Housing Commission, 1625 Newton Avenue, San Diego, CA 92113-1038; (619-578-7538) fax to (619) 578-7357. Internet E-Mail: [rudy@sdhc.org](mailto:rudy@sdhc.org)