



Good Neighbors

San Diego
Housing Commission

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REPORT

DATE: For the Agenda of October 20, 2000

ITEM 104

REPORT NO.: HCR00-100

SUBJECT: Implementation of a Lead-Based Paint Reduction Program
(Citywide)

SUMMARY

Issue: To what extent should the Housing Commission provide funding for lead-based paint testing and reduction activities for participants of federally funded programs?

Recommendation: It is recommended that the Housing Commission approve the implementation of a Pilot Program to fund the costs of lead paint testing and reduction activities consistent with the recommendations outlined in the body of this report.

Fiscal Impact: Portions of FY2001 funds budgeted for housing programs are being set aside to cover the costs of lead-based paint testing. In addition, \$100,000 of FY2001 Rental Rehabilitation Program Income funds budgeted for housing rehabilitation programs would be set-aside to cover costs of lead paint reduction activities in existing Section 8 rental properties. Such costs for other housing programs may be incorporated into the pertinent program funding costs pending approval of recommendations in this report. The total amount of lead paint reduction activities is not fully known at this time, however, they may increase the overall costs for individual projects and potentially reduce the number of projects/units to be assisted. Additional funding sources will be sought to continue funding mandated lead-based paint testing and reduction activities on an ongoing basis.

Future Related Actions: It is anticipated that staff will return to the Commission in February 2001 to provide information regarding the results of this Pilot Program.

BACKGROUND

Lead-based paint is one of the major health hazards facing children today. More than 1.7 million children under the age of six in the United States have elevated blood lead levels, resulting in learning and behavioral problems, and potentially, retardation, convulsions, coma and even death. Two occurrences of elevated blood lead levels in children have been discovered in Commission assisted housing, one in Public Housing and one in Section 8 housing. In both cases the cause was determined to be non-housing related.

The U. S. Department of Housing and Urban Development (HUD) has issued federal regulations implementing sections of Title X of the Housing and Community Development Act of 1992 (Residential Lead-Based Paint Hazard Reduction Act of 1992) that became effective September 15, 2000. Those regulations apply to all federally funded residential housing activities, including the following:

- San Diego Housing Commission/Authority-owned housing
- Tenant-based rental assistance (Section 8)
- Housing development (acquisition/rehabilitation)
- Home ownership (First Time Home Buyer)
- Special needs housing
- Housing rehabilitation

These new regulations are triggered when pre-1978 housing involved in these activities has deteriorated painted surfaces and, in the case of Section 8, when a child under six years occupies such property. In addition to occupant notification of the hazards of lead-based paint and visual inspections as previously required, paint testing, if needed, reduction by certified personnel and on-going maintenance of rental properties is now required.

Approximately 64 million pre-1978 housing units in the United States contain lead-based paint, of which 13.8 million are estimated to contain deteriorated lead-based paint. Approximately 65% of San Diego's housing stock is pre-1978. It is estimated that as many as 1,000 Section 8 housing units may require some degree of lead paint testing and reduction.

The Housing Commission currently operates a program which provides grants for the cost of containment or abatement of hazardous materials (*See pages 2 and 4 of Attachment*). This program was implemented primarily for housing rehabilitation activities when regulations were less restrictive and conditions requiring testing were very limited. It is anticipated, however, that these new regulations will result in a substantial increase in mandated testing and reduction actions.

DISCUSSION

Staff has met since April 2000 with other area housing agencies and HUD representatives to develop procedures for addressing the implications of the mandated regulations. Commission staff is considering in-house testing as a cost effective and time saving measure. Insurance and liability issues are being reviewed for that determination. Designated staff is trained for assessment and clearance inspections and is awaiting certification. Until staff is certified and all related issues are resolved, interim contracts have been executed to use lead paint certified testing inspectors through the end of this fiscal year. Staff will return to the Commission in February with a cost/benefit analysis regarding in-house versus contract inspectors.

The following sections describe how lead paint regulations affect various housing programs, along with recommendations for lead reduction/abatement funding specific to each:

San Diego Housing Commission/Authority-owned Housing

All housing owned by the Commission/Authority has been tested and is certified lead-safe.

Section 8 Rental Housing

Section 8 rental housing will be required to be tested if at the time of initial lease inspection or annual recertification, there is deteriorated paint and a child under six years of age will be occupying the property. In view of the current rental housing market with its low vacancies, escalating rents, and fewer affordable units being available to Section 8 tenants, staff recommends the Commission provide lead paint testing at no cost to program owners. It is also recommended that the Commission provide a no interest deferred payment loan up to \$5,000 per unit to a maximum of \$15,000 per multi-unit property to cover the costs of lead paint reduction in exchange for the property continuing to be available to Section 8 tenants under the Housing Assistance Payment contract. The deferred loan would be repayable upon sale or transfer of the rental property. A long-term obligation to the Section 8 program is not recommended.

Recommendation:

- a) Testing: Commission provides testing at no cost to program landlords.
- b) Reduction: Commission provides no interest deferred payment loans up to \$5,000 per unit or \$15,000 per project to cover costs of lead reduction.

Housing Development

Financing for new construction is not affected, but most acquisition/rehabilitation properties would be. Lead paint reduction costs could be added to the development loan using the existing program loan terms. The cost of lead paint testing can be incorporated into the pre-development budget and the test results will be used to estimate the cost of reduction. If the security position of the Commission's loan exceeds 120 percent of the after-rehab value (the "loan-to-value" ratio), staff may recommend funding of the lead paint reduction, either in part or in full, with a revocable grant. For each proposed project, Commission staff will consider

the impact of the cost of reduction on the total development cost and on the Commission's cost. It is possible that the cost of reduction will, in some cases, increase the project cost to such an extent that staff will not recommend funding the project. In cases where the Commission's financial participation in the project is a revocable grant, the cost of reduction will be incorporated into the grant.

Recommendation:

- a) Testing: Include cost of lead testing in Commission pre-development loan.
- b) Reduction: Add lead costs to Commission development deferred 3% interest loan. If over 120% of after-rehab value, may recommend excess lead costs be provided as revocable grant on case-by-case basis.
If Commission's full participation in project is revocable grant, add lead costs to grant.

First Time Home Buyer Program

The Mortgage Credit Certificate (MCC) and Down Payment Assistant Programs do not trigger the lead paint regulations. However, they are triggered by the Shared Equity Loan Program, which offers eligible first-time homebuyers a deferred payment second loan up to \$25,000 or 20 percent of the purchase price, whichever is less. Staff is proposing that the Commission assume the cost of lead paint testing under the Shared Equity Loan Program. If lead reduction is required, the cost would be paid by the buyer through a Commission-provided conditional grant, up to \$5,000 maximum, which will be forgiven after six years of residency, or repayable upon resale or transfer prior to six years. A grant is recommended in these instances due to loan-to-value and escrow time constraints. If the cost for lead paint reduction exceeds the maximum grant amount of \$5,000, the request for a shared equity loan will be denied based on the unacceptable condition of the property.

Recommendation:

- a) Testing: Commission provides lead testing at no cost to homebuyer.
- b) Reduction: Commission provides conditional grant up to \$5,000 requiring six years residency by buyer.

Special Needs Housing

Special Needs Housing includes programs such as Shelter Plus Care. Staff recommends that supportive housing participants have costs of lead paint testing assumed by the Commission. Costs for lead reduction will be included in the pertinent project's development loan if feasible, or considered on a case-by-case basis.

Recommendation:

- a) Testing: Commission provides lead testing at no cost to sponsor.
- b) Reduction: Include lead costs in Commission's development loan/revocable grant under pertinent housing program terms.

Housing Rehabilitation

Staff recommends that the Commission assume the costs of lead testing for rehabilitation program participants. Current policies provide grants to cover the costs of abatement or containment of hazardous materials in owner-occupied and rental housing. However, staff recommends limiting the lead paint reduction funds to \$5,000 per residential unit to a maximum of \$15,000 per multifamily project and providing these funds on a no interest deferred payment loan basis rather than as a grant.

Recommendation:

- a) Testing: Commission provides lead testing at no cost to program participant.
- b) Reduction: Commission provides a no interest deferred payment loan up to \$5,000 per unit or \$15,000 per multi-family property.

ALTERNATIVES

1. Place the responsibility for the costs of lead paint testing and reduction activities on the program participants.

Respectfully submitted,

Pat Duplechan
Director, Housing Programs

SS/lmk

**Signature on File
With Original Document**

Approved by,

Elizabeth C. Morris
Chief Executive Officer

Attachment: Owner-occupied and Rental Property Housing Rehabilitation Policies