

# Community Development Committee

Meeting date: March 18, 2013

For the Metropolitan Council meeting of None – Information Only

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**Subject:** Sequestration – Impact on Metro HRA Rent Assistance Programs

**District(s), Member(s):** All

**Policy/Legal Reference:** Code of Regulations, Title 24, Part 982

**Staff Prepared/Presented:** Terri Smith, HRA Manager, (651) 602-1187

**Division/Department:** Community Development / HRA

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## Proposed Action

No Action – Information Item.

## Background

Sequestration, a series of automatic across-the-board budget cuts outlined in the Budget Control Act of 2011, went into effect on March 1, 2013. These cuts have a direct impact on the Housing Choice Voucher (HCV) Program administered by the Council's Housing and Redevelopment Authority.

The Council's budget authority from the U.S. Department of Housing and Urban Development (HUD) has been decreased by 5.1% as a result of sequestration: a nearly \$2.5 million annual reduction. This translates into subsidy to support approximately 500 families for a year.

Staff has considered many budget reduction strategies and options to address the shortfall. Three options to absorb the decrease include:

1. End rental assistance for 350 families effective May 1, 2013 and reduce program size through regular monthly program attrition; or
2. Use Section 8 reserve funds to cover the \$2.5 million reduction thus keeping the program size the same as today/last year; or
3. Some combination of both of Options 1 and 2 – reduce the number of families served and use reserves to ease the impact on participants.

Option 1 would result in extremely low income households comprised of disabled, elderly, families with children and previously homeless veterans into unaffordable, unsustainable housing situations and possible homelessness. This option would result in 350 families losing their Section 8 rent assistance effective May 1, 2013. This option has a devastating impact on the families served. Conversely, this option would ensure spending does not exceed the new lowered HUD provided 2013 budget authority due to sequestration.

Option 2 would result in the use of \$2.5 million in Section 8 reserves to continue providing rent assistance to all currently assisted households and maintaining the current program size and spending levels. The Council's target fund balance threshold is 8.3% of the HRA's annual budgeted operating expenses (\$63 million x 8.3% = \$5.25 million). The Council's HRA has a current reserve balance of \$7.2 million. Spending \$2.5 million would put the reserve balance below the Council's target fund balance. This option would allow the HRA to continue business as usual while depleting reserve funds.

Staff, in consultation with Chair Haigh and Regional Administrator Born, are recommending Option 3, using a combination of reserves while moving toward a reduced program size. This is the most reasonable way to mitigate the impact on as many families as possible due to the decreased budget. Under option 3, the number of households served would be reduced over the course of the year through regular attrition as an alternative to ending housing assistance for households currently served. Approximately 45 families end their participation in the program each month for a variety of reasons. This equates to 540 terminations per year. Assuming this reduced budget environment is not short term, this would put the program size where it will likely need to be for anticipated 2014 funding levels. However, because the reduction in households served is slow and occurs over many months, this would require the use of approximately \$1.5 million in reserves.

The following are considerations and results of this action:

- No one will be served from the Waiting list in 2013.
- Households that recently received a voucher, but have not yet used it, will be placed back on the waiting list in their previous position. If a household needs or wants to move out of a unit with a project based voucher (PBV) and requests a tenant based voucher, their request will be denied.
- No PBVs will be offered this year through MN Housing's annual Super RFP application process.
- Program size reductions are likely permanent because future year funding is based on current year spending.

There are other potential cost containment strategies under consideration including:

- Freeze on moves for all HCV participants to higher cost units
- Reduction of subsidy standards – reduced number of bedrooms for each family
- Rent freeze for all participating landlords
- Freeze on filling any PBV vacancies including the 150 units owned by the Council as well as 300 other units owned by private landlords with a project based vouchers assigned to the unit

## **Rationale**

Option 3 is the most reasonable way to mitigate the impact on as many households as possible due to the decreased budget. Although \$1.5 million in reserves would be spent during 2013, the the number of households served will be reduced over the course of the year and no currently served families will become impacted as a result.

This option will also allow the HRA's reserve balance to remain above the Council's threshold of 8.3% of the annual operating budget.

## **Funding**

Funding for the Section 8 Housing Choice Voucher program is provided by the U.S. Department of Housing and Urban Development.

## **Known Support / Opposition**

None