SENATE COMMITTEE ON HOUSING
Senator Scott Wiener, Chair
2023 - 2024 Regular

Bill No: AB 653 **Hearing Date:** 7/10/2023
Author: Reyes
Version: 5/1/2023
Urgency: No **Fiscal:** Yes
Consultant: Alison Hughes

SUBJECT: Federal Housing Voucher Acceleration Program

DIGEST: This bill creates the Federal Housing Voucher Acceleration Program (program).

ANALYSIS:

Existing law:

1) Establishes the federal Housing Choice Voucher (HCV) Program and enacts rules and regulations governing the operation of the program.

2) Establishes the methodology for determining fair market rents (FMRs) and SAFMRs for areas. HUD establishes small area fair market rents (SAFMRs) for certain metropolitan fair market rent (FMR) areas for use in the administration of tenant-based assistance under the HCV program. A public housing authority (PHA) administering an HCV program in a metropolitan area not subject to the application of SAFMRs may opt to use SAFMRs by seeking approval from HUD's Office of PIH through written request. The selection criteria used to determine which metropolitan areas must use SAFMRs are:

   a) The number of vouchers under lease in the metropolitan FMR area;
   b) The percentage of the standard quality rental stock within the metropolitan FMR area that is in zip codes where the SAFMR is more than 110% of the metropolitan FMR area;
   c) The percentage of voucher families living in concentrated low income areas;
   d) The percentage of voucher families living in concentrated low income areas relative to the percentage of all renters within these areas over the entire metropolitan area; and
   e) The vacancy rate for the metropolitan area.

3) Creates in each county and city a public body known as the PHA of the county or city and grants certain powers to those PHAs.

This bill:

1) Defines the following terms:

   a) "Landlord incentives" to mean incentives to landlords to provide permanent housing, including, but not limited to, holding fees, signing bonuses, payment for repairs made in advance of occupancy to ensure compliance with habitability standards; and contractors to assist the landlord in making repairs;
   b) "Mobility counseling" to mean services that assist program participants with locating, applying for, and moving into permanent housing, with an emphasis on helping families move to low-poverty neighborhoods;
   c) "Payment standard" to mean the maximum monthly assistance payment for a family assisted in the voucher program before deducting the total tenant payment by the family, as specified;
   d) "Small Area Fair Market Rents" (SAFMRs) to have the same meaning as under federal regulations;
   e) "Success rate" to mean the percentage of new voucher families that have successfully leased a qualifying unit;
   f) "Turn-back rate" to mean the percentage of families that receive a voucher but then turn the voucher back into the PHA at the expiration of the search term because they cannot find a unit; and
   g) "Voucher utilization rate" to mean the number of units leased with voucher assistance as a percentage of the number of units that were under the Annual Contributions Contract between the U.S. Department of Housing and Urban Development (HUD) and the PHA.

2) Requires the Department of Housing and Community Development (HCD), by July 1, 2024, to create a grant application process and award grants to applicant PHAs in geographically diverse communities.

3) Allows applicant PHAs to use grant funds for any of the following eligible uses to provide services to the eligible population:

   a) Holding fees, signing bonuses, and other landlord incentives;
   b) Housing navigation and housing mobility services;
   c) Security deposits;
   d) Costs of establishing leases with landlords;
   e) Landlord recruitment activities; and
   f) Administrative activities of the PHA for purposes of providing services to the eligible populations under the program, with no more than 10% of the grant award being used for this purpose.

4) Requires a PHA that receives grant funds under the program to submit reports to HCD that include the nature of the use of funds, number of voucher families served with funds, success rate before and after receiving the grant, and the zip codes to which family participants that accessed program services successfully moved.

5) Requires all PHAs, beginning January 1, 2024 and every quarter thereafter, to report their monthly success rates to HCD disaggregated by voucher type and by race of population served. If a PHA's success rate is below 60% for two consecutive quarters, requires the authority to:

   a) Opt in to the HUD SAFMRs for all metro areas in the authority's jurisdiction within three months following the report, in a manner that meets four specified criteria; and
   b) Submit a report to HCD that analyzes the potential for other policies to increase success rates, including, but not limited to, the time it takes to inspect an apartment before move-in, voucher search times, and whether mobility or navigation services are available to aid applicants in finding housing.

6) Allows HCD to require a PHA to make other changes to its practices, including, but not limited to, increasing payment standards, and requires the PHA to comply within a reasonable period of time.

7) Requires HCD to report to the Legislature annually an evaluation of the statewide success rate and changes made to increase efficiencies in placements.

COMMENTS:

1) *Author's statement.* "Federal housing choice vouchers can increase housing stability. This is particularly true for families with children, older adults, and people with disabilities. However, Californians who receive housing vouchers often face barriers when trying to use them in the state's competitive rental market. Many families wait years on a voucher waitlist. Then, when they finally get off the waitlist, many of them cannot find a place to live, due to time and supply limits, and end up having to return their voucher. When someone receives a voucher to make rent affordable, but they cannot find an available unit to accept it, we see federal dollars left on the table and a household who remains housing insecure. We have to do something to make sure we are maximizing the use of federal resources.

   AB 653 provides a common sense way to ensure the state is using federal funding to pair individuals and families with places to live. AB 653 is a practical solution toward helping families achieve housing stability. AB 653 will prevent Californians from falling into homelessness, increase oversight and accountability, and invest in proven solutions to house Californians by promoting the use of federal housing choice vouchers."

2) *PHAs and the Voucher System.* The Housing Choice Voucher (HCV) program is the largest rental assistance program in the country. More than 5 million people in over 2 million low-income households use vouchers nationwide, including 307,800 California households as of January 2022. The HCV program relies on private landlords to accept voucher recipients as tenants, and the federal government covers the portion of rent that exceeds 30% of the tenant's income. Because the amount of federal funding provided for the HCV program is limited, far more low-income people qualify for a voucher than actually receive one – and even fewer of those who receive one can successfully find a landlord in the private market willing to accept the voucher. While the voucher generally covers the portion of the tenant's rent that exceeds 30% of their income, payment standards for metro areas determine how much rent beyond 30% the HCV is allowed to cover. Payment standards are based on fair market rents (FMRs) that HUD calculates each year for middle-range housing units in an area, and generally units cannot exceed 110% of the FMR for the area without an "exception payment" allowance from HUD.

   The HCV program is administered by PHAs, which are independent public entities created by state law and almost entirely funded by the federal government. Due to the mismatch between the number of eligible low-income households and the amount of HCVs available in each region, most PHAs require applicants to join a voucher waitlist, intended to filter people into the program as vouchers become available. In practice, because the HCV program is so impacted and there is such a lack of naturally occurring affordable housing (NOAH, or unsubsidized housing where rents are naturally affordable) in the state, many people wait years on a voucher waitlist, and some PHAs have had their waitlists closed for years and only open them for extremely brief periods of time due to overwhelming demand.

   The sponsors and author of this bill contend that low payment standards across PHAs in California also contributes to the challenges voucher recipients face in finding and leasing a unit, as lower payment standards restrict the number of eligible units to those with asking rents that do not exceed roughly 110% of the FMR. For example, the FMR for a two-bedroom rental in 2023 in the Los Angeles-Long Beach-Glendale metro area is $2,222, while other private rental data aggregation sites suggest the average rent for a two-bedroom is much higher ($2,870 according to Apartments.com, and $2,781 across all unit sizes according to RentCafe). Even at 110% of two-bedroom FMR, which would be $2,444, private rental market data suggests this is $300 or more off average asking rents for similarly sized units in the area.

These and other factors can create discrepancies between a PHA's "utilization rate," generally the share of an agency's authorized vouchers in use on average over a calendar year, and their "voucher success rate," or the percentage of families that receive a newly issued voucher and are able to find and lease a unit. Utilization rates generally hover in the 80-100% range. The last HUD study of national success rates of PHAs conducted in 2000 found that the national average voucher success rate was 69%, while the average success rate in very tight housing markets was 61%, and in the City of Los Angeles was 47%. Only 27% of PHAs had success rates below 60%, the threshold that would be established in this bill to trigger mandatory adoption of SAFMRs.

According to the author and sponsors, Los Angeles County PHA's waitlist has been closed since 2009, and only 44.7% of voucher recipients are able to find housing with their voucher. In San Bernardino, one-third of families are forced to return their voucher to the PHA. A household's inability to use a voucher often means that the family will fall into homelessness or continue to live in unsafe, overcrowded, or uninhabitable living conditions. Further, because of the way the program is funded, failure to utilize all of the state's federally allocated vouchers can result in lower funding for PHAs in future years. This creates a delicate balancing act for PHAs to manage. Many PHAs significantly "over-issue" vouchers because they know they will not all successfully lease up, yet the PHA must get as close to possible to 100% of their budgeted authority in order to prevent funding reductions.

3) *Recent Federal and State Efforts to Improve HCV Program*. In recent years, HUD has offered new flexibilities to PHAs to boost the success of the HCV program. Three key program changes intended to increase lease-up rates and reduce segregation of voucher holders in low-opportunity neighborhoods include the introduction of SAFMRs, allowing PHA administrative funding to be used for housing navigation and landlord incentives, and, for the first time, the inclusion of more up-to-date private rent data in calculating FMRs.

   Landlord incentives are benefits offered to private landlords to induce them to seek out voucher recipients as possible tenants, or to hold units open for voucher recipients while federally mandated inspections or other approvals are obtained prior to a lease-up. These can include signing bonuses, larger security deposits, or the hiring of landlord engagement staff who are available in case any issues arise. These incentives have shown success at increasing the amount of housing units that are available to voucher recipients seeking housing, including in the recent Emergency Housing Voucher program. This bill would create a program at HCD to fund grants to applicant PHAs to provide landlord incentives, security deposits, landlord recruitment activities, and housing navigation services, with reporting requirements to judge the impact of these grants on PHA success rates.

4) *SAFMRs.* While traditional FMR is established for units of various sizes in each metro area or rural county, the payment standards generated by these FMRs are often too low to cover rents in extremely hot housing markets and in wealthier, higher-opportunity neighborhoods. According to the Center on Budget and Policy Priorities:

   When the payment standard is too low – as is often the case in neighborhoods with low poverty, low crime, and high-performing schools – families will struggle to find units they can rent with their voucher. When the payment standard is too high, families can afford units that are larger or have more amenities than they need, and owners can potentially charge above-market rents (unless housing agencies strictly enforce rules requiring that rents be reasonable in the local market). Such excessive payments reduce the voucher program's cost-effectiveness and encourage families to use vouchers – and owners to accept them – in lower-rent, higher-poverty neighborhoods.

   Research shows that SAFMRs have worked well at helping families move to higher-opportunity neighborhoods. In August 2017, HUD released an interim evaluation of SAFMR implementation at two Dallas-area agencies and the five SAFMR demonstration agencies. During the period SAFMRs were used, the share of voucher holders who lived in high-opportunity neighborhoods rose at SAFMR agencies but not at a group of comparison agencies that didn't use SAFMRs. (Researchers identified high-opportunity neighborhoods through an index that considered poverty rate, school quality, access to jobs, and exposure to environmental toxins.) Earlier research also found that SAFMRs in Dallas enabled voucher holders to move to neighborhoods with less crime. These findings have important implications for families' well-being, since research shows moving to lower-poverty neighborhoods can lead to major improvements in adults' health and children's long-run earnings and chances of attending college. […] Moreover, SAFMRs may enable agencies serving jurisdictions with high rents relative to their metropolitan area to raise the share of voucher recipients who successfully lease housing, which could lower their administrative costs by reducing the rate at which they must reissue returned vouchers.

The initial mandatory SAFMR PHAs included two in California: the Sacramento Housing and Redevelopment Agency and the San Diego Housing Authority. Other PHAs may choose to opt in to SAFMRs in two ways: Agencies may set payment standards up to 110% of the SAFMR in particular zip codes even if this is above 110% of the metro FMR, without the HUD approval normally required for exception payment standards.

Agencies can request approval from HUD to adopt SAFMRs in place of metro FMRs. If HUD approves the request, the PHA is obligated to revise its administrative plan to include this change from FMRs to SAFMRs.
Not all zip codes see increased payment standards under SAFMR – the prior area-wide FMR might have not reflected the actual lower rents in certain neighborhoods or zip codes, meaning that the payment standard for those areas may have been higher than actual asking rents. This is particularly possible for those zip codes with the lowest-rent housing (often low-opportunity, high-crime, racially segregated neighborhoods), which may have a higher concentration of voucher recipients currently leasing units. Under SAFMRs, reduced payment standards in these zip codes may raise rent burdens or force existing voucher families to try to move to units with even lower asking rents. HUD provides options for PHAs to limit the impact of lower payment standards on families that continue to use a voucher in the same unit at the time the switch from FMR to SAFMR is made, including permanently holding families harmless by continuing to use the previous higher payment standard so long as the family stays in the same unit.

This bill requires all PHAs in the state to report their success rates to HCD and, if any PHA has a success rate below 60% for two consecutive quarters, requires that PHA to opt in to SAFMRs for all metro areas in the PHA's jurisdiction within three months. The bill further requires the PHA to hold current tenants harmless so that voucher holders in any areas that see reduced payment standards under the switch continue to receive their higher payment standard for as long as they reside in that unit. If a PHA meets certain conditions outlined in federal regulations, then the PHA may request an exemption from the switch to SAFMRs from HCD.

5) *Opposition.* The California Association of Housing Authorities is opposed to provisions of the bill that require PHAs to report specified data to HCD, regardless of whether the PHA receives funding from the new grant program or not. Additionally, they allege that reporting data already required by HUD to HCD will be costly. The Housing Authority of the county of San Bernardino shares similar concerns, and write that the reporting success rates to the state

could "paint an incomplete portrait of the significant and varied challenges facing HCV customers."

6) *Show me the money*. This bill contemplates the creation of a new program at HCD, which was not funded in the 2023-24 budget.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: Yes

POSITIONS: (Communicated to the committee before noon on Wednesday, July 5, 2023.)

SUPPORT:

California Rural Legal Assistance Foundation (Co-Sponsor)
Corporation for Supportive Housing (Co-Sponsor)
Housing California (Co-Sponsor)
National Housing Law Project (Co-Sponsor)
Western Center on Law & Poverty (Co-Sponsor)
Alliance of Californians for Community Empowerment (ACCE) Action
California Apartment Association
California Housing Partnership Corporation
California State Association of Counties
Disability Rights California
East Bay Housing Organizations
Livable California
Non-profit Housing Association of Northern California (NPH)
Public Advocates INC.
Residents United Network (RUN)
Union Station Homeless Services
United Ways of California (UWCA)

OPPOSITION:

California Association of Housing Authorities
Housing Authority of the County of San Bernardino

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